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No. 16147

VOL. 3094

United States
Court of Appeals
for the Ninth Circuit

WILL M. GILLIS,

Appellant,

vs.

MINERS AND MERCHANTS BANK OF
ALASKA, a Corporation,

Appellee.

Transcript of Record

Appeal from the District Court
for the District of Alaska,
Third Division

FILED
FEB 25 1959
PAUL P. O'BRIEN, CLERK

No. 16147

United States
Court of Appeals
for the Ninth Circuit

WILL M. GILLIS,

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MINERS AND MERCHANTS BANK OF
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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF COUNSEL

For Plaintiff:

FRED D. CRANE,

P.O. Box 665,

Nome, Alaska;

TAYLOR AND TAYLOR,

Room 320 Chena Bldg.,

Fairbanks, Alaska.

For Defendant:

JAMES A VON DER HEYDT,

P.O. Box 156,

Nome, Alaska;

FAULKNER, BANFIELD AND

BOOCHEVER, and

JOHN H. DIMOND,

P.O. Box 1121,

Juneau, Alaska.

In the District Court for the District of Alaska,
Second Judicial Division

No. 4180 Civil

WILL M. GILLIS,

Plaintiff,

vs.

MINERS AND MERCHANTS BANK OF
ALASKA,

Defendant.

COMPLAINT

Comes now the Plaintiff herein and for cause of
action alleges:

I.

That the Plaintiff Will M. Gillis is a resident of
the Territory of Alaska, residing at Nome, in the
Second Judicial Division, and within the jurisdiction
of this Court.

II.

That the Defendant the Miners and Merchants
Bank of Alaska, is a banking corporation, engaged
in the business of general banking at Nome, Alaska.

III.

That the Plaintiff did on the 21st day of March,
1957, make an assignment of contract to the De-
fendant herein, a copy of which is attached hereto,
marked Exhibit "A," and made a part hereof.

IV.

That the Defendant did, while holding said as-

signment, receive progress payments on said assignment in the sum of Twenty-three Thousand Five Hundred Dollars (\$23,500.00), out of which it paid the sum of Eleven Thousand One Hundred Fifty-four Dollars and Six Cents (\$11,154.06), to themselves for monies advanced and paid for the benefit of the Plaintiff herein.

V.

That the Defendant held, retained and converted to its own use the sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00).

VI.

That due and proper demand was made for the refund of the said sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00) and no part thereof has been paid to Plaintiff.

For a second cause of action the Plaintiff reiterates and realleges each and every allegation contained in Paragraphs I, II, III, IV, V and VI with the same full force and effect as if fully set forth herein.

I.

That the Plaintiff is engaged in the general contracting business in the Second Judicial Division of the Territory of Alaska, and the securing of building materials and supplies in said business is dependent upon transportation by steamship. That there are two steamers from Seattle to Nome, Alaska, Plaintiff's headquarters, each year.

II.

That by reason of Defendant's refusal to pay to Plaintiff the said sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00) as aforesaid, the Plaintiff was unable to order and have shipped necessary building materials and supplies on the last steamer leaving Seattle, Washington, to Nome, Alaska, in the year of 1957. That by reason of the Defendant withholding the said sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00), and converting the same to its own use the Plaintiff has been damaged in the sum of Twenty-five Thousand Dollars (\$25,000.00).

Wherefore the Plaintiff demands judgment in the sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00), with interest, on the first cause of action and damages in the sum of Twenty-five Thousand Dollars (\$25,000.00) upon the second cause of action, together with Plaintiff's costs and attorneys' fees.

/s/ FRED D. CRANE,

TAYLOR & TAYLOR,

By /s/ WARREN A. TAYLOR,
Attorneys for Plaintiff.

Duly verified.

[Endorsed]: Filed November 30, 1957.

[Title of District Court and Cause.]

DEFENDANT'S MOTION TO DISMISS
UNDER RULE 12(b) (6) FRCP

Defendant moves to dismiss plaintiff's complaint on the ground that it fails to state any claim upon which relief can be granted.

The reasons for this motion are specifically set forth in the attached memorandum in support thereof.

Dated: Dec. 18, 1957.

/s/ JAMES A. VON DER HEYDT,
FAULKNER, BANFIELD &
BOOCHEVER,

/s/ N. C. BANFIELD,

/s/ JOHN H. DIMOND,
Attorneys for Defendant.

[Endorsed]: Filed December 18, 1957.

[Title of District Court and Cause.]

AMENDED COMPLAINT

Comes Now the Plaintiff herein and for cause of action alleges:

I.

That the Plaintiff Will M. Gillis is a resident of the Territory of Alaska, residing at Nome, in the

Second Judicial Division, and within the jurisdiction of this court.

II.

That the Defendant Miners and Merchants Bank of Alaska, is a banking corporation, engaged in the business of general banking at Nome, Alaska.

III.

That the Plaintiff did on the 21st day of March, 1957, make an assignment of contract to the Defendant herein, a copy of which is attached hereto, marked "Exhibit A" and made a part hereof.

IV.

That prior to the execution of the assignment marked "Exhibit A," and at the time of the execution thereof the Defendant agreed to pay unto itself sums of money equivalent to the advances to the Plaintiff under the assignment of the contract and the Defendant further agreed that any monies collected in excess of the monies due to the Defendant for the advances under said assignment shall be promptly remitted and paid to the Plaintiff upon the repayment of the advances made.

V.

The above-named Defendant prior to and at the time of the execution of the said assignment agreed that other than the indebtedness secured by the assignment to the Defendant no other claim or setoff or debt should be charged against the proceeds of the said assignment and that only the advances made by the Defendant shall be reimbursed by vir-

tue of a receipt of any money under the assignment and that any excess or balance over and above the advances of the Defendant shall be paid to the Plaintiff immediately upon receipt of the proceeds under the said assignment.

VI.

That the Defendant did, while holding said assignment, receive progress payments on said assignment in the sum of Twenty-three Thousand Five Hundred Dollars (\$23,500.00), out of which it paid the sum of Eleven Thousand One Hundred Fifty-four Dollars and Six Cents (\$11,154.06), to itself for monies advanced and paid for the benefit of the Plaintiff herein.

VII.

That in violation of the agreement between the parties and contrary to any understanding had the Defendant after having reimbursed itself the sum of \$11,154.06 without the consent of the Plaintiff herein under some pretense of creating an indebtedness which was not contemplated by and between the parties, misappropriated and converted the sum of \$11,225.00.

VIII.

That the Defendant held, retained and converted to its own use the sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00).

IX.

That due and proper demand was made for the refund of the said sum of Eleven Thousand Two

Hundred Twenty-five Dollars (\$11,225.00) and no part thereof has been paid to Plaintiff.

For a second cause of action the Plaintiff reiterates and realleges each and every allegation contained in Paragraphs I, II, III, IV, V, VI, VII, VIII and IX with the same full force and effect as if fully set forth herein.

I.

That the Plaintiff is engaged in the general contracting business in the Second Judicial Division of the Territory of Alaska, and the securing of building materials and supplies in said business is dependent upon transportation by steamship. That there are two steamers from Seattle, Washington, to Nome, Alaska, Plaintiff's headquarters, each year.

II.

That by reason of the Defendant's refusal to pay to the Plaintiff the said sum of \$11,225.00 as aforesaid and by reason of the Defendant's unwarranted and unlawful retention of the said sum of money, the Plaintiff was unable to order and have shipped necessary building materials and supplies on the last steamer leaving Seattle, Washington, to Nome, Alaska, in the year of 1957.

By virtue of the conduct of the Defendant herein the misappropriation and conversion of the said monies and preventing the Plaintiff from pursuing his business because of the lack of the accessibility of the funds for materials and supplies, the Plain-

tiff has been damaged in the sum of Twenty-five Thousand Dollars (\$25,000.00).

Wherefore, the Plaintiff demands judgment in the sum of Eleven Thousand Two Hundred Twenty-five Dollars (\$11,225.00), with interest, on the first cause of action and damages in the sum of Twenty-five Thousand Dollars (\$25,000.00) upon the second cause of action, together with Plaintiff's costs and attorney's fees.

/s/ FRED D. CRANE,

TAYLOR & TAYLOR,

By /s/ WARREN A. TAYLOR,
Attorneys for Plaintiff.

EXHIBIT A

Assignment of Contract

The undersigned, Will M. Gillis (hereinafter called "Assignor"), with his principal place of business at Nome, Alaska, for and in consideration of the sum of \$1.00 and other good and valuable consideration to him paid by the Miners and Merchants Bank of Nome, Alaska (hereinafter called "Bank"), receipt whereof is hereby acknowledged, does hereby transfer, set over and assign unto said bank, its successors and assigns, any and all amounts now due or owing, or which may hereafter

be or become due or owing, or remain unpaid at any time or times by the City of Nome, Nome, Alaska, to Assignor under or pursuant to the terms of that certain contract (and any amendments and supplements thereto) entered into by and between the undersigned Assignor and City of Nome, described as follows:

That certain Agreement, dated March 20th, 1957, by and between the City of Nome, Alaska, a municipal corporation organized and existing under the laws of the Territory of Alaska, and Will M. Gillis of Nome, Alaska, by the terms of which the Assignor has agreed to

“construct a two-room addition to the present old Nome public school building, as per plans before the City Council of the City, at its meeting of December 28, 1956, known and identified as Sheet No. 1, Nome Public School Building proposed addition, dated December 19, 1956, and, Sheet No. 2, Nome Public School Building proposed addition, dated December 20, 1956.”

has agreed to pay Assignor the sum of \$41,113.72 and the Undersigned Assignor does hereby designate and appoint said Bank, its successors and assigns, its true and lawful attorney or attorneys, with power irrevocable, for him, and in his name, place and stead to ask, demand, receive, receipt and give acquittance for any and all amounts which may become due or payable by the City of Nome, Alaska, under said contract or any amendments or supplements thereto, and in its discretion to file any claim

or to take any other action or proceeding, either in its own name, or in the name of the undersigned, or otherwise, which to said Bank or any successor or assignee thereof may seem necessary or desirable in order to collect or enforce the payment of any and all amounts which may become due or owing on account of said contract, or any amendments or supplements thereto.

Assignor does hereby represent and warrant unto said Bank that no payments have been made on account of said contract except as follows: No Dollars and that Assignor has not heretofore and will not hereafter alienate nor assign said contract or any right or interest therein or thereto.

The acceptance of this assignment by said Bank shall not obligate it to perform any duty, covenant or condition required to be performed by assignor under and by virtue of said contract or any amendments or supplements thereto.

This assignment is made and entered into to secure and provide for the payment of any and all obligations now due or owing or which may hereafter be or become due or owing by the undersigned Assignor to the Bank.

In Witness Whereof, the Assignor has caused this instrument to be duly executed this 21st day of March, 1957.

/s/ WILL M. GILLIS,
Assignor.

The above assignment is agreed to and accepted
by the City of Nome.

.....,
Mayor.

United States of America,
Territory of Alaska—ss.

On this 21st day of March, 1957, before me, the undersigned, a Notary Public in and for the Territory of Alaska, duly commissioned and sworn, personally appeared Will M. Gillis, to me known to be the individual described in and who executed the within and foregoing instrument, and acknowledged that he signed the same as his free and voluntary act and deed, for the uses and purposes therein mentioned.

Witness my hand and official seal hereto affixed the day and year in this certificate above written.

/s/ FRED D. CRANE,
Notary Public in and for the
Territory of Alaska.

My commission expires October 15, 1960.

[Endorsed]: Filed March 17, 1958.

[Title of District Court and Cause.]

DEFENDANT'S ANSWER TO PLAINTIFF'S
AMENDED COMPLAINT

Answer to First Cause of Action

1. Defendant admits the allegations in paragraphs I, II, and III; the allegations contained in the first four lines of paragraph IV ending with the word "contract"; and the allegations contained in paragraph VI.

2. Defendant denies the remaining allegations in paragraph IV, and all allegations in paragraphs V, VII, VIII and IX, with the exception of that portion of paragraph IX which states that "no part thereof has been paid to plaintiff," which allegation defendant admits.

Answer to Second Cause of Action

1. Defendant incorporates herein by reference paragraphs 1 and 2 of its answer to plaintiff's first cause of action.

2. Answering paragraph I: (a) Defendant admits that plaintiff is engaged in the general contracting business in the Second Judicial Division of the Territory of Alaska; (b) Defendant is without knowledge or information sufficient to form a belief as to the truth of the remaining allegations, and therefore denies the same.

3. Defendant denies the allegations in paragraph II.

Affirmative Defense

The second cause of action in plaintiff's amended complaint fails to state any claim upon which relief can be granted.

Defendant's Counterclaims

First Counterclaim

1. At all times mentioned herein, Ernest H. Gustafson and Robert H. Renshaw were co-partners doing business at Nome, Alaska, under the name of "North Star Bakery." For purposes of convenience, these two persons will hereafter be referred to generally as "North Star."

2. On or about September 15, 1954, North Star executed and delivered to plaintiff North Star's promissory note in the principal sum of \$19,854.83. A true copy of such note is hereto annexed, marked Exhibit No. 1 and made a part hereof.

3. At the time of the execution and delivery of the note, North Star executed, acknowledged and delivered to plaintiff a second real and chattel mortgage, transferring and conveying to plaintiff, as security for the indebtedness represented by the note, certain real and personal property therein described. The real property consisted of all of Lot 7 in Block H of the Townsite of Nome, Alaska, and will hereafter be referred to generally as the "mortgaged property."

The said mortgage was dated September 15, 1954,

and was filed for record in the office of the Recorder for the Cape Nome Recording Precinct on March 30, 1955, as Instrument No. 89848.

4. The mortgage referred to in paragraph 3 herein was subordinate to the lien of a prior and first real and chattel mortgage of the same property, securing the sum of \$38,000.00, from North Star to defendant. This mortgage was dated September 15, 1954, and was filed for record in the office of the said Recorder on September 15, 1954, as Instrument No. 89669.

5. On or about January, 1957, an agreement was made among plaintiff, defendant and North Star, which resulted in the following:

(a) Plaintiff agreed in writing to sell to defendant all of plaintiff's right, title and interest in the mortgage referred to in paragraph 3 herein, in consideration of the payment to plaintiff of \$15,000.00. A true copy of such agreement is hereto annexed, marked Exhibit No. 2 and made a part hereof.

(b) On or about January 30, 1957, defendant paid to plaintiff the sum of \$15,000.00. At the same time and contemporaneously with such payment, plaintiff executed and delivered to defendant the former's assignment of all his right, title and interest in the mortgage referred to in paragraph 3 herein, and also acknowledged receipt of the payment of \$15,000.00. A true copy of such assignment is hereto annexed, marked Exhibit No. 3 and made a part hereof.

In addition, plaintiff executed and delivered to North Star plaintiff's release of the mortgage referred to in paragraph 3 herein. Such release, entitled "Satisfaction of Second Real and Chattel Mortgage," was filed for record on January 31, 1957, in the office of the Recorder for the Cape Nome Recording Precinct, as Instrument No. 90533. A true and correct copy of such Satisfaction of Second Real and Chattel Mortgage is hereto annexed, marked Exhibit No. 4 and made a part hereof.

(c) The said payment of \$15,000.00 made by defendant to plaintiff constituted a loan in that amount from defendant to North Star, to be added to the balance of North Star's original indebtedness to defendant referred to in paragraph 4 herein. Consequently, at this same time North Star executed and delivered to defendant the former's promissory note in the principal sum of \$110,000.00, together with a conveyance and transfer to defendant of the mortgaged property as a mortgage and as security for such loan of \$110,000.00. This new mortgage, dated January 22, 1957, was filed for record in the office of the said Recorder on January 25, 1957, as Instrument No. 90525, and recorded in Volume 237 of Mortgages at pp. 25-30.

(d) Since the purpose of the new mortgage was to secure the total indebtedness from North Star to defendant after the loan of the said \$15,000.00, the mortgage from North Star to defendant referred to in paragraph 4 herein was released by defendant by

way of the execution, acknowledgment and delivery by defendant to North Star of an instrument entitled "Satisfaction of Real and Chattel Mortgage." This instrument was dated January 30, 1957, and was filed for record in the office of the said Recorder on January 31, 1957, as Instrument No. 90530.

6. In the civil action entitled Joseph Wallace vs. Will M. Gillis, No. 4107, in this court, a writ of attachment was issued on May 5, 1956. On May 15, 1956, under the authority of said writ, the United States Marshal at Nome seized and took into his possession from plaintiff the promissory note (Exhibit No. 1).

7. At the time that plaintiff received from defendant the said sum of \$15,000.00, in full payment of the promissory note, plaintiff knew that the note was not in his possession, but had been attached by the United States Marshal; and plaintiff intentionally withheld and kept such facts from the knowledge of defendant and North Star for the purpose of obtaining the said payment of \$15,000.00. Neither defendant nor North Star were aware that the note was not in plaintiff's possession or that he did not have the right to possession of the same; and if they had had such knowledge, neither defendant nor North Star would have paid to plaintiff the said sum of \$15,000.00 or any other amount.

8. In the said civil action of Wallace vs. Gillis, No. 4107, judgment was entered by this court on April 25, 1957. Among other things, the judgment provided as follows:

“It Is Further Ordered, Adjudged and Decreed, that the U. S. Marshal at Nome, Alaska, sell, at public auction, that certain promissory note executed by Ernest H. Gustafson and Robert H. Renshaw, d/b/a North Star Bakery, in favor of defendant for the sum of Nineteen Thousand Eight Hundred Fifty-four and 83/100's (\$19,854.83) Dollars, now in the possession of the said Marshal and the same hereby is ordered sold in accordance with law, together with all of the interest of the said defendant in and to Lot Seven (7) of Block ‘H’ of the Townsite of Nome, Alaska, by reason of that certain real and chattel mortgage securing said debt, recorded in the office of the U. S. Commissioner of the Cape Nome Precinct, Second Division, Alaska, as instrument No. 89,849, and that a good and sufficient title to the said instrument and property be executed and delivered by the said U. S. Marshal to the purchaser thereof.”

9. Execution was issued by this court on the said judgment and pursuant thereto, the United States Marshal, on or about June 18, 1957, gave public notice in writing that on June 28, 1957, he would sell at public auction, to the highest and best bidder, the following:

“That certain promissory note executed by Ernest H. Gustafson and Robert H. Renshaw, dba North Star Bakery, in favor of the defendant herein for the sum of \$19,854.83/100, said note then being in possession of the United States Marshal for the Second Division, District of Alaska; together with

all of the interest of the said defendant in and to Lot Seven (7), of Block 'H' of the Townsite of Nome, Alaska, by reason of that certain real and chattel mortgage securing said debt, recorded in the office of the U. S. Commissioner of the Cape Nome Precinct, Second Division of Alaska as Instrument No. 89,849."

A true copy of said Notice of Marshal's Sale is hereto annexed, marked Exhibit No. 3a and made a part hereof.

10. After it was brought to the notice and knowledge of defendant and North Star that North Star's promissory note to plaintiff had been attached and was in the hands of the United States Marshal at the time that plaintiff had been paid the \$15,000.00, defendant and North Star promptly demanded that plaintiff take action to protect defendant and North Star against liability on said note—which liability could then have been enforced either by a holder in due course of said note or by a transferee of such holder. Despite such demands, plaintiff failed and refused to take any such action.

11. On or about June 26, 1957, North Star filed with the Marshal a third party claim, alleging ownership of the note and setting forth the recorded release and satisfaction of the mortgage referred to in paragraph 3 (Exhibit No. 4). A true copy of such third party claim is annexed hereto, marked Exhibit No. 5 and made a part hereof.

12. Wallace, the judgment creditor of plaintiff, then posted bond to protect the Marshal against

such third party claim, and on or about June 29, 1957, the United States Marshal conducted his sale under the above-mentioned writ of execution and pursuant to said notice of sale. Wallace was the successful bidder at the sale, and for the sum of \$11,225.00 purchased from the Marshal the following:

(a) The promissory note (Exhibit No. 1).

(b) All of the interest of plaintiff in and to Lot 7 of Block H of the Townsite of Nome, Alaska.

A return of such sale is contained in an instrument entitled "Assignment and Bill of Sale" and executed by the United States Marshal for the Second Judicial Division of Alaska. A true copy of said Assignment and Bill of Sale is hereto annexed, marked Exhibit No. 6 and made a part hereof.

13. Following the sale referred to above, defendant and North Star were notified by Wallace, through his attorney, that Wallace intended to sell the note to a third party; and that unless defendant and North Star took immediate steps to redeem said note, such sale would be made. Again efforts were made by defendant and North Star to get plaintiff to take action to protect defendant and North Star against liability on said note, but plaintiff refused to indemnify defendant or North Star or to do anything to assume responsibility for payment and discharge of such note.

14. On July 13, 1957, North Star and defendant gave written notice that they intended to redeem

from Wallace any and all interest of plaintiff and themselves in the promissory note and in and to the mortgaged property. A true copy of said notice is hereby annexed, marked Exhibit No. 7 and made a part hereof.

15. On July 18, 1957, North Star and defendant purchased and redeemed from Wallace the said promissory note, together with all of the right, title and interest of Wallace in and to the mortgaged property, as described in the Marshal's Assignment and Bill of Sale (Exhibit No. 6). Defendant and North Star at this time paid Wallace the sum of \$11,225.00, and he in turn delivered to defendant the promissory note. A true copy of Wallace's Certificate of Redemption is hereby annexed, marked Exhibit No. 8 and made a part hereof.

16. On or about October 7, 1957, North Star in writing assigned to defendant all of North Star's right and interest, whatever it may be, in and to an existing right of action against plaintiff, based upon the promissory note above referred to which had been originally purchased from plaintiff by defendant and North Star for the sum of \$15,000.00, and later redeemed from Wallace for the sum of \$11,225.00. A true copy of said assignment is hereto annexed, marked Exhibit No. 9 and made a part hereof.

17. The payment of the said sum of \$15,000.00 made by defendant and North Star to plaintiff was a payment made under the influence of mistake, and induced by the failure of plaintiff to disclose to de-

fendant and North Star that at the time of such payment the promissory note had been attached by the United States Marshal. Plaintiff was not entitled to receive such money. By reason of these facts, and the matters alleged hereinbefore, plaintiff received the said sum of \$15,000.00 which he, in equity and good conscience, should not retain, and is obligated to repay and make restitution of the same to defendant, together with interest thereon at the rate of 6 per cent from January 30, 1957.

Second Counterclaim

1. Defendant realleges and incorporates herein by reference paragraphs 1 through 16 of its first counterclaim.

2. Wallace, the judgment creditor of plaintiff, at the time of the aforesaid sale by the Marshal, became a holder in due course of the promissory note. Such note, in his hands or in the hands of a person to whom he might have negotiated it, was an enforceable obligation against North Star.

3. By reason of the said sale by the Marshal, Wallace became, and any assignee or transferee of his would have become, the owner of all of the interest of plaintiff, as mortgagee, in and to North Star's mortgaged property, by virtue of the mortgage from North Star to plaintiff referred to in paragraph 3 of the first counterclaim herein. Defendant's interest in such property as mortgagee under the terms of the mortgage of September 15, 1954, referred to in paragraph 4 of the first counter-

claim herein, had been superior to the said mortgagee's interest of plaintiff. But, as alleged in paragraph 5 of the first counterclaim herein, defendant's original mortgage of September 15, 1954, was satisfied and released by defendant because of the matters alleged in the said paragraph 5, and the new mortgage from North Star to defendant of January 22, 1957, was executed, delivered and recorded subsequent to the execution, delivery and recording of the said mortgage from North Star to plaintiff.

By reason of the levy of the writ of attachment in the Wallace action (paragraph 6 of the first counterclaim) and entry of the judgment in such action (paragraph 8 of first counterclaim), and by reason of the matters alleged in the first paragraph of this paragraph 3, the mortgage lien of defendant under its mortgage of January 22, 1957, became junior and inferior to the mortgage lien of plaintiff under his mortgage of September 15, 1954.

4. In order to protect itself and North Star against an enforceable demand for payment of the promissory note sold by the Marshal, and in order to protect defendant's mortgage lien against and interest in the mortgaged property, defendant was compelled to pay Wallace the sum of \$11,225.00 and redeem the note and all of plaintiff's and Wallace's right, title and interest in and to the mortgaged property and the mortgage from North Star to plaintiff of September 15, 1954.

5. The said payment of \$11,225.00 in order to effect such redemption constituted a payment which

plaintiff, in equity and good conscience, ought to have made. Plaintiff has been unjustly enriched at the expense of defendant. Therefore, defendant is entitled to recover such payment of \$11,225.00 from plaintiff, together with interest thereon at the rate of 6 per cent per annum from July 18, 1957.

Third Counterclaim

1. Defendant realleges and incorporates herein by reference paragraphs 1 through 16 of its first counterclaim, and paragraphs 2 and 3 of defendant's second counterclaim.

2. The payment of the sum of \$11,225.00, which defendant was compelled to make by reason of the circumstances hereinbefore stated, constituted a partial payment of Wallace's judgment against plaintiff, which payment constituted the primary obligation of plaintiff.

3. By reason of the foregoing, defendant became subrogated to all of Wallace's rights and claims against plaintiff in respect to the said judgment which Wallace had obtained against plaintiff, to the extent of \$11,225.00. Therefore, by virtue of such right of subrogation, defendant has the right to enforce said judgment against plaintiff and is entitled to recover from plaintiff the said sum of \$11,225.00, together with interest thereon at the rate of 6 per cent per annum from July 18, 1957.

Wherefore, defendant prays as follows:

1. For judgment against plaintiff, in the alternative, as follows:

(a) On defendant's first counterclaim, in the amount of \$15,000.00, together with interest thereon at the rate of 6% per annum from January 30, 1957.

(b) On defendant's second counterclaim, in the amount of \$11,225.00, together with interest thereon at the rate of 6 per cent per annum from July 18, 1957.

(c) On defendant's third counterclaim, in the amount of \$11,225.00, together with interest thereon at the rate of 6 per cent per annum from July 18, 1957.

2. For judgment against plaintiff for defendant's costs, including attorneys' fees in the amount of \$1,200.00.

3. That plaintiff's complaint be dismissed with prejudice.

Dated: April 19, 1958.

/s/ JAMES A. VON DER HEYDT,
FAULKNER, BANFIELD &
BOOCHEVER,

/s/ JOHN H. DIMOND,
Attorneys for Defendant.

Two copies received this 14th day of April, 1958

/s/ FRED D. CRANE,
Of Attorneys for Plaintiff.

EXHIBIT No. 1

Installment Promissory Note

\$19,854.83

Nome, Alaska,

September 15, 1954.

For Value Received, we promise to pay to Will M. Gillis, of Nome, Alaska, or order, the sum of Nineteen Thousand Eight Hundred Fifty-four Dollars and Eighty-three Cents (\$19,854.83), with interest thereon from date until paid at the rate of eight per cent (8%) per annum, in the manner following, that is to say:

In thirty-nine installments of Five Hundred Dollars (\$500.00) each, and one final installment of Three Hundred Fifty-four Dollars and Eighty-three Cents (\$354.83), the first of said installments to be paid on the 15th day of September, 1957, without grace, together with interest then due, and a like installment on the 15th day of each and every month thereafter, without grace, until the whole of said principal sum has been paid, together with interest as above specified, which said interest shall be paid monthly from date until the full principal sum has been paid by installments as above set forth.

Principal and interest are payable only in legal monies of the United States of America and in the event of a suit to enforce the collection of this note, or any portion thereof, we further agree to pay a reasonable attorney fee in said suit.

Promisors tender and deliver this promissory note as full settlement of any and all claims and indebtedness of whatever nature which is due and owing the promisee above named as of the date hereof, and said promisee accepts delivery of this said note as such full settlement.

This installment note is secured by a second real and chattel mortgage.

/s/ ERNEST H. GUSTAFSON,

/s/ ROBERT H. RENSHAW,

Co-partners, d/b/a North

Star Bakery, Nome Alaska.

(Single page.)

EXHIBIT No. 2

Agreement to Sell

I, hereby agree to sell all of my right, title and interest in that certain Second Mortgage in the name of Ernest H. Gustafson and Robert H. Renshaw covering property known as the North Star Bakery, to the Miners and Merchants Bank of Alaska.

The above-mentioned mortgage was dated March 3, 1955 in the original amount of nineteen thousand eight hundred fifty-four dollars and eighty-three cents (\$19,854.83) and I agree to sell this mortgage to the Miners and Merchants Bank of Alaska for fifteen thousand dollars (\$15,000.00).

Dated this 21st day of Jan., 1957.

/s/ WILL M. GILLIS.

EXHIBIT No. 3

Assignment

For value received in the amount of Fifteen thousand dollars (\$15,000.00), I hereby assign, sell and deliver to the Miners and Merchants Bank of Alaska all my rights, title and interest in that certain Second Real and Chattel Mortgage I hold in the name of Ernest H. Gustafson and Robert H. Renshaw doing business under the name of North Star Bakery, further described as follows:

All of Lot Seven (7) in Block "H" in the City of Nome, together with all improvements thereon, all building materials to be used from Polet's store on East Front Street. Also, all bakery equipment and restaurant furnishings, as well as all supplies belonging to North Star Bakery. Promissory note attached in the amount of \$19,854.83 drawing interest at 8%. Payments to be made in thirty-nine (39) installments of \$500.00 each, dated September 15, 1954, and executed by Ernest H. Gustafson and Robert H. Renshaw and filed in the office of the United States Commissioner of the Cape Nome Recording District, Nome, Alaska as Instrument No. 89848, Volume 229 on Page 199.

This agreement also constitutes a receipt for the above-mentioned Fifteen thousand dollars (\$15,000.00) which satisfies the above-mentioned Second Real and Chattel Mortgage.

/s/ WILL M. GILLIS.

On this 30th day of January, 1957, before the undersigned, a Notary Public in and for the Territory of Alaska, personally appeared Will M. Gillis, to me known to be the same identical person who signed and executed the same as his free and voluntary act and deed.

Witness my hand and notarial seal the day and year in this certificate first above written.

[Seal]

Notary Public in and for the Territory of Alaska,
Residing at Nome, Alaska.

My commission expires November 10, 1960.

EXHIBIT No. 3-A

Form No. 176

Notice of Marshal's Sale

United States of America,
2nd District of Div—ss.

Public notice is hereby given, that by virtue of a writ of Fieri Facias (or execution), dated June 4, A. D. 1957, issued out of the District Court of the United States for the Second Division District of Alaska on a judgment rendered in said Court, on the 25th day of April A. D. 1957, in favor of Joseph Wallace and against Will M. Gillis I have, on this

18th day of June, A. D. 1957, levied upon the following described personal property, situated in the City of Nome, Cape Nome Precinct and Territory of Alaska, to wit:

That certain promissory note executed by Ernest H. Gustafson and Robert H. Renshaw, d/b/a North Star Bakery, in favor of defendant for the sum of Nineteen Thousand, Eight Hundred fifty-four and 83/100's Dollars, now in possession of the United States Marshall for the Second Division, District of Alaska, together with all of the interest of the said defendant in and to Lot Seven (7) of Block "H" of the Townsite of Nome, Alaska by reason of that certain real and chattel mortgage securing said debt, recorded in the Office of the U. S. Commissioner of the Cape Nome Precinct, Second Division of Alaska, as instrument No. 89,849.

and that I will, accordingly, offer said personal property for sale, at public venude to the highest and best bidder, for cash, on the 28th day of June, A.D. 1957, at 10:00 o'clock a.m., at United States Marshal's Office, Room 12, Post Office Building, Nome, Alaska.

Dated: June 18th, A.D. 1957.

ROBERT A. PARRISH,
Fairbanks, Alaska,
Plaintiff's Attorney.

ROBERT W. OLIVER,
U. S. Marshal, 2nd Div. Dis-
trict of Alaska.

By /s/ GEORGE A. BAYER,
Chief Deputy.

EXHIBIT No. 4

Satisfaction of Second Real and Chattel Mortgage

Know All Men by These Presents: That the following described property situated in the Cape Nome Recording District, Territory of Alaska, to wit:

All of Lot Seven (7) in Block "H" in the City of Nome, together with all improvements thereon, all building materials to be used from Polet's store on East Front Street.

All bakery equipment and restaurant furnishings, as well as all supplies belonging to the North Star Bakery

is hereby released and discharged from the lien of that certain Second Real and Chattel Mortgage dated September 15, 1954, made and executed by Ernest H. Gustafson and Robert H. Renshaw doing business under the name of North Star Bakery of Nome, Alaska, Mortgagors, to Will M. Gillis, Mortgagee, and given to secure the payment of the indebtedness evidenced by that certain promissory

note in the principal sum of Nineteen thousand eight hundred fifty-four dollars and eighty-three cents (\$19,854.83) with interest at 8% per annum, dated September 15, 1954, and executed by Ernest H. Gustafson and Robert H. Renshaw and filed in the office of the United States Commissioner of the Cape Nome Recording District, Nome, Alaska as Instrument No. 89848. Volume 229, Page 199.

In Witness Whereof, Will M. Gillis has executed this instrument this 30th day of January, 1957.

Executed in the presence of:

/s/ WILL M. GILLIS,

/s/ JAMES G. MANNING,

/s/ BEVERLY A. MORGAN.

Territory of Alaska, Second Division,
Cape Nome Precinct—ss.

On this 30th day of January, 1957, before the undersigned, a Notary Public in and for the Territory of Alaska, personally appeared Will M. Gillis, to me known to be the same identical person who signed and executed the foregoing Satisfaction of Second Real and Chattel Mortgage, and acknowledged to me that he signed and executed the same on the day said release bears date as the free and voluntary act and deed of the Mortgagee, Will M. Gillis.

Witness my hand and notarial seal the day and year in this certificate first above written.

[Seal] /s/ BEVERLY A. MORGAN,
Notary Public in and for the Territory of Alaska,
Residing in Nome, Alaska.

My commission expires November 10, 1960.

EXHIBIT No. 5

To: The United States Marshal for the Second
Judicial Division of the Territory of Alaska,
or any Deputy.

Third Party Claim

United States of America,
Territory of Alaska—ss.

Ernest H. Gustafson, being first duly sworn,
deposes and says:

That I am one of the partners of the partnership known and doing business in Nome, Alaska, as North Star Bakery, and I make this affidavit in good faith as a third party claimant under the statutes of the Territory of Alaska.

That the said partnership purchased in good faith and for a valuable consideration from Will M. Gillis, of Nome, Alaska, the then owner thereof, that certain installment promissory note dated September 15, 1954, in the principal sum of \$19,854.83,

and executed by myself and Robert H. Renshaw, Co-partners, d/b/a North Star Bakery, Nome, Alaska, and now held by you and noticed for sale at 10 a.m. on the 28th day of June, 1957, which said note was secured by a second real and chattel mortgage of record in the office of the ex officio Recorder for the Cape Nome Precinct, Nome, Alaska.

That the said note is of the value of Fifteen Thousand Dollars (\$15,000.00), and that its full satisfaction and the said partnership's right to possession of it is evidenced by the release and satisfaction of second mortgage, executed by the said former owner, Will M. Gillis, and recorded in the office of the said ex officio Recorder, on the 31st day of January, 1957, as instrument number 90533.

That the right of the United States Marshal to hold and execute upon said installment promissory note, which is not yet due, and which prior to judgment or execution has been fully satisfied by the makers, is hereby challenged.

That the said partnership has the right to possession of the said installment promissory note.

/s/ ERNEST H. GUSTAFSON.

Subscribed and Sworn to before me this 26th day of June, 1957.

[Seal] /s/ JAMES A VON DER HEYDT,
Notary Public for Alaska.

My commission expires December 11, 1959.

EXHIBIT No. 6

Civil No. 4107

Re:

JOSEPH WALLACE,

Plaintiff,

vs.

WILL M. GILLIS,

Defendant.

ASSIGNMENT AND BILL OF SALE

I hereby certify that by virtue of a Writ of Execution issued in the above-entitled case I did, on the 29th day of June, 1957, sell, at public auction, to Joseph Wallace, the plaintiff in the above-entitled action: "That certain promissory note executed by Ernest H. Gustafson and Robert H. Renshaw, d/b/a North Star Bakery, in favor of the defendant herein for the sum of Nineteen Thousand Eight Hundred Fifty-four and 83/100 Dollars, said note then being in possession of the United States Marshal for the Second Division, District of Alaska; together with all of the interest of the said defendant in and to Lot Seven (7), of Block "H" of the Townsite of Nome, Alaska, by reason of that certain real and chattel mortgage securing said debt, recorded in the Office of the U. S. Commissioner of the Cape Nome Precinct, Second Division of Alaska as instrument No. 89,849."

Plaintiff's bid in the amount of \$11,225.00 being the highest and best bid received.

Provided, that said sale shall be subject to redemption as provided by law.

Dated at Nome, Alaska this 11th day of June, 1957.

ROBERT W. OLIVER,
United States Marshal, 2nd
Division, District of Alaska.

[Seal] By /s/ GEORGE A. BAYER,
Chief Deputy Marshal.

EXHIBIT No. 7

Notice

Notice is Hereby Given by the parties undersigned, Ernest H. Gustafson and Robert H. Renshaw, partners, d/b/a North Star Bakery, and Miners and Merchants Bank of Alaska, Nome, Alaska, that they intend to redeem from Joseph Wallace any and all interest of Will M. Gillis or themselves in and to that certain Promissory Note and interest in real property more particularly described as a note in the sum of Nineteen Thousand Eight Hundred Fifty-four and 83/100 (\$19,854.83) Dollars and all of the interest of the said Will M. Gillis or themselves in and to Lot 7 in Block H of the townsite of Nome, Alaska, which said property was sold by the U. S. Marshal of the Second Division of Alaska, at Nome, on the 29th day of June, 1957, upon a certain judgment of

Joseph Wallace, Plaintiff, vs. Will M. Gillis, Defendant, civil cause No. 4107.

Redemption is made under and by reason of the following claims, to wit:

That the redeemers hereunder signed all are junior or senior lienholders of and to the said property and are assignors of the interest of the said Will M. Gillis in and to the said property and assignors of that certain real and chattel mortgage recorded in the office of the U. S. Commissioner of the Cape Nome Precinct, 2nd Division, Alaska, as instrument number 89849 by reason of purchase and/or assignment.

In Witness Whereof, the parties hereto have hereunto set their hands this 13th day of July, 1957.

Executed in the presence of:

/s/ JAMES A. VON DER HEYDT,
Nome, Alaska.

/s/ ERNEST H. GUSTAFSON,

/s/ ROBERT H. RENSHAW,
Partners, d/b/a North Star
Bakery.

MINERS & MERCHANTS
BANK OF ALASKA,

By /s/ JAMES G. MANNING,
Executive Vice President.

United States of America,
Territory of Alaska—ss.

This Is to Certify that, before me, the undersigned, a Notary Public in and for the Territory of Alaska, duly commissioned and sworn, personally appeared Ernest H. Gustafson, Robert H. Renshaw, partners, d/b/a North Star Bakery, and James G. Manning, Executive Vice President of the Miners and Merchants Bank of Alaska, Nome, Alaska, to me known personally and known to be the identical individuals named in and who executed the foregoing instrument and each acknowledged to me that he did so freely and voluntarily, for the uses and purposes therein mentioned and specified.

In Witness Whereof, I have hereunto set my hand and affixed my Notarial Seal this 13th day of July, 1957.

/s/ JAMES A. VON DER HEYDT,
Notary Public for Alaska.

My commission expires: 12-11-59.

EXHIBIT No. 8

Certificate of Redemption

Know all men by these presents that I, Joseph Wallace, owner and holder of a Marshal's Assignment and Bill of Sale, a copy of which is attached hereto, do certify that on this 18th day of July,

1957, I received from Ernest H. Gustafson and Robert H. Renshaw, co-partners, d/b/a North Star Bakery, and Miners and Merchants Bank of Nome, Alaska, the sum of Eleven Thousand Two Hundred Twenty-Five (\$11,225.00) Dollars in full redemption of all the right, title and interest of Joseph Wallace in and to the property described in the Marshal's Assignment and Bill of Sale, a copy of which is attached hereto, from the sale thereof made by the said Marshal on the 29th day of June, 1957, all of which and the return of said sale is now on file in the office of the Clerk of the District Court for the Territory of Alaska for the Second Division, Nome, Alaska; that said redemption is made according to the Notice of Redemption, a copy of which is attached hereto and marked "Exhibit B."

Dated this 18th day of July, 1957.

/s/ JOSEPH WALLACE.

State of Washington,
County of King—ss.

This Is to Certify that before me, the undersigned, a Notary Public in and for the State of Washington, County of King, duly commissioned and sworn, personally appeared Joseph Wallace, known to me and known to be the identical individual named in and who executed the foregoing instrument, and he acknowledged to me that he

signed the same freely and voluntarily for the uses and purposes therein mentioned and specified.

In Witness Whereof, I have hereunto set my hand and Notarial Seal this 18th day of July, 1957.

[Seal] /s/ BRADLEY DALTON,
Notary Public in & for the State of Washington.
County of

My comm. expires: July 21, 1957.

EXHIBIT No. 9

Assignment

Know All Men by These Presents:

That, We, Ernest H. Gustafson, Elizabeth Gustafson and Robert H. Renshaw, partners, d/b/a North Star Bakery, Nome, Alaska, for and in consideration of the sum of One Thousand Dollars, and other good and valuable considerations, the receipt of which is hereby acknowledged, and to us paid and delivered by the Miners and Merchants Bank of Alaska, Nome, Alaska, an Alaskan banking corporation, do by these presents sell, convey and assign, transfer and set over unto the said Miners and Merchants Bank of Alaska all of our right and interest, whatever such may be, in and to an existing right of action against Will M. Gillis of Nome, Alaska, or Gillis Construction Company, Inc., Nome, Alaska, based upon a certain installment promissory

note dated September 15, 1954, in the principal sum of \$19,845.83, which said note was purchased by us and again later redeemed from a judgment creditor of the said Will M. Gillis for the redemption sum of \$11,225.00.

To Have and to Hold unto the said Miners and Merchants Bank of Alaska, Nome, Alaska, and to its assigns forever.

In Witness Whereof, we have hereunto set our hands this 7th day of October, 1957.

NORTH STAR BAKERY,
A Partnership,

By /s/ ERNEST H. GUSTAFSON,
Partner.

United States of America,
Territory of Alaska—ss.

This is to certify that on this 7th day of October, 1957, before me, the undersigned, a Notary Public in and for the Territory of Alaska, duly commissioned and sworn, personally appeared Ernest H. Gustafson, a partner of the North Star Bakery, a partnership, Nome, Alaska, and to me known to be the identical person named in and who executed the foregoing assignment, and he acknowledged to me that he executed the same freely and voluntarily for the said partnership, and for the uses and purposes therein set forth.

In Witness Whereof, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above set forth.

[Seal] /s/ JAMES A. VON DER HEYDT,
Notary Public for Alaska,

My commission expires:

[Endorsed]: Filed April 14, 1958.

[Title of District Court and Cause.]

PLAINTIFF'S REPLY TO DEFENDANT'S
COUNTER-CLAIM

In reply to defendant's first counter-claim plaintiff admits, denies and alleges as follows:

1.

Admits the allegations of paragraph 1 of defendant's first counter-claim.

2.

Admits the allegations of paragraph 2 of defendant's first counter-claim.

3.

Admits the allegations of paragraph 3 of defendant's first counter-claim.

4.

Admits the allegations of paragraph 4 of defendant's first counter-claim.

5.

(a) Admits the allegations of paragraph 5(a) of defendant's first counter-claim.

(b) Admits the allegations of paragraph 5(b) of defendant's first counter-claim.

(c) (d) & (e) Not having sufficient knowledge or information upon which to base a belief of the allegations contained in paragraph 5(c), 5(d) and 5(e), plaintiff denies the same.

6.

Plaintiff admits the allegations of paragraph 6 of defendant's first counter-claim.

7.

Plaintiff admits that part of paragraph 7 of defendant's first counter-claim which states, "the plaintiff knew that the note was not in his possession, but had been attached by the United States Marshal," but denies each and every other allegation contained in said paragraph 7.

8.

Admits that the matters set forth in paragraph 8, are in fact a part of the judgment entered in the case of Wallace vs. Gillis on the 25th day of April, 1957.

9.

Admits the allegations of paragraph 9 of defendant's first counter-claim.

10.

Denies each and every allegations contained in paragraph 10 of defendant's first counter-claim.

11.

Not having sufficient knowledge and information upon which to base a belief of the allegation contained in paragraph 11 of defendant's first counter-claim, plaintiff therefore denies the same.

12.

Admits the sale and Marshal's "assignment and Bill of Sale" of the property described in paragraph 12 defendant's first counter-claim.

13.

Not having sufficient knowledge or information upon which to base a belief of the allegations of paragraph 13 of defendant's first counter-claim.

14.

Not having sufficient knowledge and information upon which to base a belief of the allegations of paragraph 14 of defendant's first counter-claim, plaintiff therefore denies the same.

15.

Not having sufficient knowledge and information upon which to base a belief of the allegations of paragraph 15 of defendant's first counter-claim, plaintiff therefore denies the same.

16.

Not having sufficient knowledge and information upon which to base a belief of the allegation of paragraph 16 of defendant's first counter-claim, plaintiff therefore denies the same.

17.

Denies each and every allegation of paragraph 17 of defendant's first counter-claim.

Plaintiff's Reply to Defendant's Second Counter-Claim

1.

Plaintiff realleges and incorporates herein by reference his replies to paragraphs 1 to 16 of defendant's first counter-claim.

2.

Denies the allegations contained in paragraph 2 of defendant's second counter-claim.

3.

That the allegations contained in paragraph 3 of defendant's second counter-claim are so indefinite that plaintiff cannot frame a responsive pleading thereto, and therefore plaintiff denies the same.

4.

Not having sufficient knowledge and information upon which to base a belief of the allegation of paragraph 4 of defendant's second counter-claim, plaintiff denies the same.

5.

Denies the allegations of paragraph 5 of defendant's second counter-claim.

Reply to Third Counter-Claim

1.

Plaintiff realleges and incorporates herein by reference his replies to paragraph 1 to 16 of defendant's first counter-claim and paragraphs 2 and 3 of defendant's second counter-claim.

2.

Denies the allegations of paragraph 2 of defendant's third counter-claim.

3.

Denies the allegations of paragraph 3 of defendant's third counter-claim.

Wherefore, having replied to defendant's first, second and third counter-claim, plaintiff prays for the relief contained in plaintiff's complaint on file herein.

FRED D. CRANE,
TAYLOR & TAYLOR,

By /s/ FRED D. CRANE,
Of Counsel.

Receipt of copy acknowledged.

[Endorsed]: Filed May 1, 1958.

[Title of District Court and Cause.]

DEPOSITION OF JAMES G. MANNING

Nome, Alaska, April 5, 1958

Appearances:

MR. JAMES A. VON DER HEYDT,

Nome, Alaska,

Attorney for Defendant.

Deposition of James G. Manning, a witness of lawful age, taken on behalf of the defendant, pursuant to stipulation filed herein, before Mary C. Diede, Official Court Reporter and Notary Public in and for the Territory of Alaska, at 2:00 p.m., April 5, 1958, in the Federal Building at Nome, Alaska. Mr. James A. von der Heydt, attorney for the defendant, appeared on behalf of the defendant; Mr. Fred D. Crane, attorney for the plaintiff, did not appear.

Mr. von der Heydt: At the beginning of this deposition I would like to state that I am appearing on behalf of the defendant, Miners and Merchants Bank, in the taking of the deposition of James G. Manning, and that this deposition is taken on behalf of the defendant pursuant to stipulation of the parties by and through their attorneys, myself and Mr. Fred D. Crane, which is dated April 3, 1958. The original signed copy of this stipulation has been handed to the Court Reporter. Mr. Crane has stated that it is not his wish to be present and the defendant has agreed to furnish him with a copy of

the deposition. It is also agreed and stipulated between the parties that all objections as to relevancy and materiality of the questions will be reserved to the time of trial.

JAMES G. MANNING

being first duly sworn, on oath deposes and says

Direct Examination

By Mr. von der Heydt:

Q. Will you state your name, please?

A. James G. Manning.

Q. Where is your residence?

A. Nome, Alaska.

Q. Do you hold a position with the Miners and Merchants Bank of Alaska at Nome?

A. Yes, I do.

Q. What is that position?

A. Executive Vice President.

Q. How long have you held this position?

A. A year and three months.

Q. Just generally, Mr. Manning, what are your duties as Executive Vice President of the Bank—first, let me ask you, are you acquainted with Ernest H. Gustafson and Robert H. Renshaw, who operate a partnership business at Nome, Alaska, known as the North Star Bakery?

A. Yes, I am.

Q. How long have you been acquainted with these persons?

A. Approximately five years slightly, and only a year and three months business-wise.

(Deposition of James G. Manning.)

Q. What business dealings, if any, have you had with the North Star Bakery partnership over this period of time, particularly, Mr. Manning, from the time of your assuming duties at the Bank as Executive Vice President?

A. They have had a regular and normal banking business with us and have been borrowing customers.

Q. Mr. Manning, I now hand you a certified copy of what appears to be a certain real and chattel mortgage dated September 15, 1954, between Ernest H. Gustafson and Robert H. Renshaw, doing business as the North Star Bakery, as mortgagors, and the Miners and Merchants Bank as mortgagee. Can you identify this instrument and if so, will you please state what it is?

(The instrument is first handed to the Reporter and marked as Exhibit No. 1 for Identification and then handed to the witness.)

A. Yes. This is a real and chattel mortgage dated September 15, 1954, between Ernest H. Gustafson and Robert H. Renshaw doing business as the North Star Bakery, and the Bank, in the amount of \$38,000.00.

Q. I now hand Exhibit No. 1 for Identification to the Court Reporter and ask her—which the witness has identified—and ask her to mark it as Exhibit No. 1.

(Exhibit No. I for Identification is thereupon marked as Exhibit No. 1.)

(Deposition of James G. Manning.)

Q. This mortgage states that the property therein described was given to the Bank as security for a loan from the Bank to the North Star partnership in the amount of \$38,000.00. Is that correct?

A. Yes.

Q. Was such loan made to the North Star partners and if so, when?

A. What was that question again?

Q. Was such loan made to the North Star partners and if so, when?

A. Yes, it was made; and the date was September 15, 1954.

Q. Was the mortgage of the property therein described given to the Bank by the North Star Partners as security for such loan?

A. Yes, it was.

Q. Do you know Will M. Gills, the plaintiff in civil action No. 4180, Gills v. Miners and Merchants Bank?

A. Yes.

Q. How long have you known him?

A. Approximately four or five years, but had not actual business dealings with him until about a year and three months ago.

Q. Did you have occasion sometime in January, 1957, to meet or confer with Mr. Gillis, Mr. Renshaw and Mr. Gustafson on a business matter?

A. Yes, I did.

Q. If so, when and where did this meeting occur?

A. It would be the latter part of January in the Bank office.

(Deposition of James G. Manning.)

Q. And that would be January, 1957?

A. 1957, yes.

Q. Mr. Gills, Mr. Renshaw, Mr. Gustafson and yourself were present? A. Yes.

Q. What was the purpose of this meeting?

A. We were discussing the refinancing of the North Star obligations to the Bank.

Q. At the time of such meeting were you aware of the fact that the North Star had previously given to Mr. Gillis a second real and chattel mortgage covering the same property given as security for the Bank's first mortgage of September 15, 1954?

A. Yes, I was aware of that.

Q. And the mortgage which has been identified as Exhibit No. 1? A. Yes.

Q. If you recall, would you state how the fact of the existence of this second mortgage came to your attention?

A. I don't recall exactly, except when we took the steps to refinance the North Star obligations it was known to me that the second mortgage must be cleared up to make our first mortgage a good first mortgage.

Q. Was not the date of the execution of the second real and chattel mortgage of the North Star Partnership, September 15, 1954, the same date as the mortgage to the Bank which is identified as Exhibit No. 1?

A. I believe so—it was after the date of the Bank's first mortgage.

Q. What was your understanding of the relative

(Deposition of James G. Manning.)

priorities between these two mortgages; that is, the second real and chattel mortgage given to Mr. Gillis by the North Star partners, and the mortgage which is Exhibit No. 1, given to the Bank by the North Star?

A. I understood we had a valid, a good first mortgage, and that Mr. Gillis' was a second mortgage, junior to the Bank's obligation.

Q. At the conference about which you have testified, which took place late in January, 1957, were there any agreements between and amongst the parties present?

A. Yes. The main purpose of that meeting was to firm up a verbal agreement beforehand between Mr. Gillis, the North Star partners and the Bank, wherein he would be willing to discount his second mortgage for immediate cash.

Q. How much money did he agree to accept as full satisfaction of his second real and chattel mortgage and note secured thereby?

A. \$15,000.00.

Q. And this money was to be paid to Mr. Gillis at that time or very shortly thereafter in cash?

A. At the time the refinancing was completed on the new North Star loan.

(An instrument is then handed to the Reporter and marked as Exhibit No. 2 for Identification.)

Q. I now hand you an instrument which has been marked by the Court Reporter as Exhibit

(Deposition of James G. Manning.)

No. 2 for Identification, which has been entitled "Agreement to Sell" bearing the date January 21, 1957, and which appears to bear the signature of Will M. Gillis. Can you identify this and state what it is?

A. Yes. This is an agreement by Mr. Gillis to sell his right, title and interest in the second mortgage, to the Miners and Merchants Bank.

Q. Does this agreement, Mr. Manning, state the amount of money he is willing to sell the interest in the second real and chattel mortgage for?

A. Yes. The original or unpaid balance of the chattel mortgage is \$19,854.83, and he is willing to sell that for \$15,000.00 cash.

Q. I now hand Exhibit No. 2 for Identification to the Court Reporter and ask that it be marked as Exhibit No. 2.

(Exhibit No. 2 for Identification is thereupon marked as Exhibit No. 2.)

Q. Mr. Manning, returning to Exhibit No. 2, do you know whether the signature on this Exhibit is actually the signature of Mr. Gillis?

A. Yes, it is.

Q. If so, will you please state how you know this? A. I saw him sign it.

Q. What was the occasion, if you know, for the execution of this instrument by Mr. Gillis?

A. We were ready to close the new refinancing on the new mortgage and this is one of the items

(Deposition of James G. Manning.)

that had to be completed prior to the actual completion of the new financing.

Q. Was this instrument executed by Mr. Gillis at the Bank? A. Yes, it was.

Q. And he left it there or delivered it to you there? A. He left it there.

Q. Was the execution of this Exhibit No. 2 by Mr. Gillis to put in writing, as it were, the verbal agreement of the parties? A. Yes.

Q. And that is the agreement to which you have previously testified, that he would accept \$15,000.00 for his interest in the second real and chattel mortgage and the promissory note which it secured?

A. Yes.

Q. In connection with the agreement which has been identified as Exhibit No. 2, was any money paid by the Bank to Mr. Gillis? A. Yes.

Q. How much money was paid to Mr. Gillis?

A. \$15,000.00

Q. Do you remember when it was paid?

A. It would have been a few days after the meeting in my office; it would have been paid, or was paid when the new mortgage was completed and the moneys disbursed.

Q. And this payment was made to him in cash as a result of this agreement? A. Yes, it was.

Q. Do you know of your own knowledge that Mr. Gillis received this money? A. Yes.

Q. As far as you know, did this payment to him of \$15,000.00 constitute full and complete satisfac-

(Deposition of James G. Manning.)

tion of the installment promissory note of the North Star partners?

A. Yes. It was understood and agreed that he was satisfying his second mortgage for that amount of money.

Q. I now hand to the Reporter a document entitled "Assignment" which I ask to be marked as Exhibit No. 3 for Identification.

(A document entitled "Assignment" is thereupon marked as Exhibit No. 3 for Identification by the Reporter.)

Q. Mr. Manning, I now hand you the document entitled "Assignment," Exhibit No. 3 for Identification, which bears the signature of Will M. Gills, and which is dated January 30, 1957. Can you identify this instrument and if so, will you please state what it is?

A. Yes. This is an assignment by Mr. Gillis to the Bank where he sells and delivers all his right, title and interest to the second real and chattel mortgage that he held in the name of Mr. Gustafson and Mr. Renshaw, doing business as the North Star Bakery.

(Exhibit No. 3 for Identification is then handed to the Reporter and marked as Exhibit No. 3.)

Q. Mr. Manning, was Exhibit No. 3 signed in your presence? As far as you can recall?

A. Yes, it was.

(Deposition of James G. Manning.)

Q. And was this also signed in connection with the agreement of Mr. Gillis to accept \$15,000.00 in cash for the property described in the assignment?

A. Yes.

Q. And did not Mr. Gillis deliver this assignment to the Bank? A. Yes, he did.

Q. At the time the \$15,000.00 payment was made to Mr. Gillis, was any agreement made between the North Star partnership and the Bank with respect to this payment?

A. I am not sure of the meaning of that question, but the North Star agreed to pay the amount of money out of the proceeds of the new loan.

Q. Then the payment to Mr. Gillis of the \$15,000.00 constituted a loan from Bank to the North Star partnership? A. Yes, it did.

Q. And it was a part of the entire refinanced loan to the North Star partnership which took place late in January, 1957? A. Yes.

Q. Did the North Star partnership execute any instruments with respect to this \$15,000.00 liability and other refinancing which they received at that time? A. Yes, they did.

Q. What were those instruments, Mr. Manning?

A. A real and chattel mortgage and a real and chattel mortgage note.

Q. By a real and chattel mortgage note, do you mean a promissory note? A. Yes.

Q. And this promissory note was secured by a real and chattel mortgage? A. Yes, it was.

Q. Upon what property was this new real and

(Deposition of James G. Manning.)

chattel mortgage based, or what property was given in security?

A. The present chattel and real property known as the North Star Bakery and Bakery property.

(Exhibit No. 4 for Identification, a document, is so marked by the Reporter.)

Q. Mr. Manning, would you examine Exhibit No. 4 for Identification and, if you can, tell us what it is.

A. It's a real and chattel mortgage dated January 22, 1957, between the North Star Bakery and the Miners and Merchants Bank.

Q. What is the amount covered in this mortgage? A. \$110,000.00.

Q. What is the date of the mortgage?

A. January 22, 1957.

Q. And you stated, Mr. Manning, that at the same time or shortly before the execution of this mortgage, the partners executed a promissory note in the amount of \$110,000.00?

A. Yes; at the same time.

Q. And this mortgage is to secure that note?

A. Yes.

Q. Mr. Manning, will you examine page No. 3 of this document and see where a promissory note is set forth in full, on page No. 3? To the best of your knowledge and information, is this a true and correct copy of the note executed by the North Star partnership in the amount of \$110,000.00?

A. Yes; it is.

(Deposition of James G. Manning.)

(Exhibit No. 4 for Identification is thereupon marked as Exhibit No. 4.)

Q. Will you please explain the circumstances and occasion for the execution of the note which is set forth on page No. 3 of Exhibit No. 4, and the Exhibit, which is the mortgage?

A. It was executed by the partners involved to secure refinancing on their business operation.

Q. The \$110,000.00 obligation secured by the note and mortgage referred to as Exhibit No. 4, were to cover the indebtedness of the North Star partnership to the Bank, is that correct? A. Yes.

Q. Did not that include satisfaction of the North Star's original mortgage in the amount of \$38,000.00? A. Yes; it did.

Q. And also did it not include the \$15,000.00 paid to Mr. Gillis on behalf of the North Star partnership in satisfaction of his second real and chattel mortgage? A. Yes; it did.

Q. And also other additional financing?

A. That is right.

(An instrument entitled "Satisfaction of Real and Chattel Mortgage" dated January 30, 1957, is then marked by the Reporter as Exhibit No. 5 for Identification.)

Q. Mr. Manning, I now hand you Exhibit No. 5 for Identification which is entitled "Satisfaction of Real and Chattel Mortgage" and which is dated January 30, 1957, and which bears your signature.

(Deposition of James G. Manning.)

Will you please state what this is and the circumstances under which it was executed?

A. Yes. This is a full satisfaction and release of the real and chattel mortgage dated September 15, 1954, in the amount of \$38,000.00.

Q. And the mortgage just referred to of September 15, 1954, is that same instrument which is Exhibit No. 1 herein? Is that correct?

A. Yes.

Q. And this was executed by you in satisfaction of that mortgage at the time of the refinanced loan in January, 1957?

A. Yes.

(Exhibit No. 5 for Identification is thereupon marked as Exhibit No. 5.)

Q. With respect to Exhibit No. 5, Mr. Manning, is that your signature upon the instrument?

A. Yes, it is.

Q. Was the original of this instrument filed with the United States Commissioner at Nome?

A. Yes.

Q. And the purpose of this instrument, being Exhibit No. 5, was to fully satisfy the mortgage which is Exhibit No. 1 herein?

A. Yes.

Q. At the time of the payment to Mr. Gillis of the \$15,000.00 about which you have previously testified and the execution and delivery of Exhibits 4 and 5, what was said by Mr. Gillis, if anything, as to the location of the promissory note of September 15, 1954, in the amount of \$19,854.83 from the North Star partners to Mr. Gillis?

(Deposition of James G. Manning.)

A. Mr. Gillis made no mention of the location of the note.

Q. Did Mr. Gillis state either at this time or at any other time or times where the note was located or whether he had possession of it or whether he could deliver it, either to the North Star Partnership or the Bank? A. No; he did not.

Q. At the time of the meeting in late January, 1957, which you have mentioned, between yourself and Mr. Gustafson, Mr. Renshaw and Mr. Gillis, did Mr. Gillis indicate his full understanding of the agreement and transaction which took place with respect to the payment to him of the \$15,000.00?

A. Yes.

Q. Did he say or do anything which would indicate to you that he considered such payment to constitute full and complete satisfaction of the \$19,854.83 note from the North Star to Gillis?

A. Yes. It was understood he was accepting payment for full satisfaction and he signed the release items, release documents.

Q. And you feel certain that at that time it was his understanding, and everyone's understanding, that the \$15,000.00 he received was full satisfaction for the note and his interest in the second real and chattel mortgage and the property secured thereby?

A. Yes. I am sure that was the full agreement.

Q. Do you remember the next occasion, if there was one, that the matter relating to the promissory note between the North Star and Gillis about which you have testified came to your attention?

(Deposition of James G. Manning.)

A. If I recall correctly, it didn't come to my attention again until the Court action between Mr. Wallace and Mr. Gillis, a month or so later.

Q. By that you refer to the case brought by Mr. Joe Wallace against Mr. Will M. Gillis which was tried here in Nome late in February, 1957?

A. Yes.

Q. And it was at that time that this matter again came to your attention, that is, the matter of the note and second real and chattel mortgage?

A. Yes.

Q. And was it at this time that you first learned that the note referred to in the amount of \$19,854.83 was in the possession of the United States Marshal?

A. Yes.

Q. After the conclusion of the Wallace-Gillis suit and at a later date, did you have knowledge that the United States Marshal was going to sell this note and the interest created in the North Star property by the second real and chattel mortgage at the Marshal's sale?

A. Yes. I was informed of that.

Q. What, if you remember, did you or any of the representatives of the Bank do at this time?

A. The Bank's attorney on several occasions discussed the matter with Mr. Gillis' attorney with the idea in mind of coming to some agreement or making some arrangement on the note.

Q. And that was done at that time, was it not, in order to protect the interest of the North Star and the Bank in the note and second real and chat-

(Deposition of James G. Manning.)

tel mortgage which you had previously purchased from Mr. Gillis for \$15,000.00? A. Yes.

Q. And that is the note and second real and chattel mortgage about which you have previously testified? A. Yes.

Q. If you had known at the time of payment of the \$15,000.00 from the Bank to Mr. Gillis, that the note of the North Star to Gillis previously referred to had been attached by the Marshal in the civil action of Wallace vs. Gillis, and was no longer in Gillis' possession or under his control, would your actions with respect to the payment of \$15,000.00 and the refinancing of the North Star's indebtedness and the releasing of the Bank's original mortgage of September 15, 1954, have been the same? A. No; it wouldn't.

Q. If not, what would your actions as representative of the Bank have been?

A. I wouldn't have gone ahead with the closing of the new loan until the note had been secured or the item settled.

Q. Were you aware of the fact that as a result of the Wallace suit against Gillis that Mr. Wallace obtained judgment against Mr. Gillis?

A. Was your question "Am I aware" or "Was I aware"?

Q. Perhaps I had better rephrase the question, because it isn't clear. After the trial of the Wallace-Gillis suit, which was in late February, 1957, were you then aware of the fact that Mr. Wallace had won that suit against Mr. Gillis? A. Yes.

(Deposition of James G. Manning.)

Q. And at the time of the Marshal's sale of the promissory note and the second real and chattel mortgage and the interest in the North Star partnership property therein, were you aware of the fact that this interest and this note were sold to Wallace at the time of the Marshal's sale?

A. Yes.

Q. After the sale by the Marshal to Wallace of this note and second real and chattel mortgage, what communications, if any, did Wallace or his attorney have with any of the Bank representatives with respect to this matter?

A. Mr. Wallace's Fairbanks attorney contacted the Bank's counsel here in Nome regarding the note.

(A document entitled "Notice" is handed to the reporter and marked as Exhibit No. 6 for Identification.)

Q. I now hand you Exhibit No. 6 for Identification, Mr. Manning, and state that this is entitled "Notice" and is dated the 13th of July, 1957, and is signed by Ernest H. Gustafson and Robert H. Renshaw, partners of the North Star Bakery, and by yourself on behalf of the Bank. Can you identify this, and, if so, state what it is?

A. Yes. This is a notice to Mr. Wallace that Mr. Gustafson, Mr. Renshaw, the North Star Bakery, and the Bank intended to redeem or exercise their right to redeem the second mortgage note in question.

(Deposition of James G. Manning.)

Q. And this is the second real and chattel mortgage and note which was referred to earlier in this deposition, and which was sold by the United States Marshal's sale?

A. Yes. Which was purchased by Joe Wallace.

(Exhibit No. 6 for identification is thereupon handed to the reporter and marked as Exhibit No. 6.)

Q. Will you examine Exhibit No. 6, Mr. Manning, and is that your signature upon the document?

A. Yes.

Q. Are those the signatures of Mr. Gustafson and Mr. Renshaw?

A. Yes; they are.

Q. And this notice, which is Exhibit No. 6, was executed by the parties named therein in order to give notice of redemption of the note and mortgage sold at Marshal's sale in the action Wallace vs. Gillis?

A. Yes.

Q. And in satisfaction of judgment in that action of Wallace vs. Gillis?

A. Yes.

Q. Was not this notice delivered to Mr. Wallace and his attorney?

A. Yes.

(A document entitled "Certificate of Redemption" is handed to the reporter and marked as Exhibit No. 7 for Identification.)

Q. I now hand to you, Mr. Manning, Exhibit No. 7 for Identification, which is entitled "Certificate of Redemption," and dated July 18, 1957, contain-

(Deposition of James G. Manning.)

ing the notarized signature of Joseph Wallace. Can you state what that is?

A. Yes. This is Mr. Wallace's certification and receipt that he received payment from Mr. Gustafson, Mr. Renshaw, the North Star Bakery, and the Bank in the amount of \$11,225.00 in full redemption of his right, title and interest in the note which he purchased at the Marshal's sale.

(Exhibit No. 7 for Identification is then handed to the Reporter and marked as Exhibit No. 7.)

Q. Then this Exhibit No. 7, Mr. Manning, is a receipt from Mr. Wallace, in effect, for \$11,225.00 paid to him? A. Yes.

Q. And the certificate was delivered by Mr. Wallace to the Bank and the North Star partnership?

A. Through his attorney to the Bank's attorney, yes.

Q. The amount stated in Exhibit No. 7, of \$11,225.00, who made this payment to Mr. Wallace?

A. The Bank.

Q. How was it made?

A. In cash through the attorneys for the Bank and Mr. Wallace.

Q. And what, if anything, did the Bank receive in exchange for the payment to Mr. Wallace of \$11,225.00?

A. The agreement and receipt and the note itself.

Q. By the note itself, you mean the note from

(Deposition of James G. Manning.)

the North Star partnership to Mr. Gillis, which was referred to before, which was sold at the Marshal's sale? A. Yes.

Q. To the best of your knowledge why was such payment made in exchange for the promissory note referred to in Exhibit No. 7?

A. To be sure that the Bank's interest and the interest of the North Star Bakery were protected.

Q. And it was necessary to redeem in this manner to protect the Bank's refinanced loan in the amount of \$110,000.00, is that correct?

A. Yes.

Q. After Exhibit No. 7 had been executed by Mr. Wallace and had been delivered to the Bank through its attorney, and Mr. Wallace had been paid the \$11,225.00, was anything said to Mr. Gillis about these matters?

A. Yes. We discussed to some length the Bank's position and Mr. Gillis' position in this matter, and asked him to recognize the payment of his judgment as an obligation.

Q. Was he willing to do so?

A. No; he was not.

Q. Did you make every reasonable effort to reach an agreement with Mr. Gillis on this matter?

A. Yes. I talked to him at some length regarding the matter.

Q. And he would do nothing at all, is that correct? A. Yes.

Q. He would not agree to protect the Bank or the partnership in any way, or to do anything that

(Deposition of James G. Manning.)

would bring equity to the situation, in that he had received the money for the promissory note twice. Is that correct?

A. No; he did not or would not make any arrangement to recognize the obligation or his liability in the second payment.

(A document entitled "Assignment of Contract" is handed to the Reporter and marked as Exhibit No. 8 for Identification.)

Q. I now hand you an instrument comprised of two typewritten pages entitled "Assignment of Contract" which is dated March 21, 1957, and bearing the signature of Will M. Gillis. Can you identify this instrument and, if so, will you state what it is?

A. Yes. This is a contract assignment where Mr. Gillis has assigned to the Bank his right and interest in money to become due on the construction contract between himself and the City of Nome where he agreed to construct a two-room addition to the present school building.

(Exhibit No. 8 for Identification is thereupon marked by the Reporter as Exhibit No. 8.)

Q. What moneys, if any, were received by the Bank from the City of Nome under this assignment, which is Exhibit No. 8?

A. We received one draw, which was a progress payment on the contract, and the amount of that payment was approximately \$24,000.00, if I recall correctly.

(Deposition of James G. Manning.)

Q. What was done with such money received and, if you can, include the dates and amounts?

A. If I recall correctly, the latter part of August we received the first draw check in the amount of approximately \$24,000.00. Mr. Gillis and I paid the \$11,000.00 advanced by the Bank on the contract. Then the balance was placed in the form, partly in the form of a cashier's check in the amount of \$11,250.00, and the balance given to Mr. Gillis in cash.

Q. In other words, Mr. Manning, approximately \$11,000.00 was paid to the Bank upon advances made to Mr. Gillis as a loan, is that correct?

A. Yes. \$11,000.00 plus the interest.

Q. And then there is a Bank draft in the amount of \$11,225.00 at the Bank at this time, is that correct?

A. Yes; there is.

Q. Which is a part of these funds?

A. Yes.

Q. And then the balance from the approximately \$24,000.00 which the Bank received, was given to Mr. Gillis in cash?

A. That is correct.

Q. As far as you can remember, Mr. Manning, did these transactions take place at approximately the same date; that is, the credit of \$11,000.00 upon the indebtedness to the Bank, and the making out of the cashier's check of \$11,225.00, and the payment to Mr. Gillis of the balance—was that not done at approximately the same date, or late in August?

A. Yes.

Q. You have testified that a cashier's check in the amount of \$11,225.00 was left at the Bank as

(Deposition of James G. Manning.)

part of the money received from the assignment of the contract of Mr. Gillis with the City of Nome. What was done with this check for \$11,225.00?

A. It was held in the Bank, and is still held. Mr. Gillis advised us that he didn't want us to use the money to pay the amount we advanced on the Wallace note, and that he would see his attorney and again contact me at a later date.

Q. Then he gave you instructions just to hold the Bank draft? A. Yes; he did.

Q. Did he ever come back to discuss the matter with you? A. No.

Q. Do you still hold the bank draft in its original form? A. Yes; I do.

(A carbon copy of a cashier's check is then handed to the Reporter and marked as Exhibit 9 for Identification.)

Q. I now hand you, Mr. Manning, Exhibit No. 9 for identification, which appears to be a carbon copy of a cashier's check of the Miners and Merchants Bank. This instrument is entitled "purchaser's receipt" and bears No. 1023, and is dated August 29, 1957, and states that it was purchased by Will Gillis to pay for advance by the Bank on the Wallace judgment, i.e., purchase of the North Star note. This is in the amount of \$11,225.00. Can you identify the instrument and, if so, will you state what it is?

A. Yes. That is a carbon copy of the cashier's check.

(Deposition of James G. Manning.)

Q. That is the cashier's check which you have previously referred to? A. Yes.

Q. That Mr. Gillis instructed you to hold?

A. Yes.

(A document dated October 10, 1957—a photostat—is handed to the Reporter and marked as Exhibit No. 10 for identification.)

Q. Mr. Manning, I hand to you Exhibit No. 10 for Identification, which appears to be a photostatic copy of a letter addressed to the Miners and Merchants Bank dated October 10, 1957, and signed by Will M. Gillis. Can you identify this and, if so, would you state what it is?

A. Yes. This is a copy of a letter of demand by Mr. Gillis to the Bank wherein he demands that we release our assignment of the contract between Mr. Gillis and the City of Nome.

Q. Was this done? A. Yes; it was.

(Exhibit No. 10 for Identification is thereupon marked as Exhibit No. 10.)

Q. From whom did you receive Exhibit No. 10?

A. From Mr. Gillis' attorney.

Q. What acts, if any, did you as an officer of the Bank take with respect to the demand exemplified by Exhibit No. 10?

A. I prepared a release of the assignment.

Q. Was Exhibit No. 10 delivered to you at the Bank? A. Yes; it was.

(Deposition of James G. Manning.)

(Exhibit No. 11 for Identification, a copy of a letter to Mayor Steffen Andersen dated September 3, 1957, was so marked by the Reporter.)

Q. Mr. Manning, I now hand you Exhibit No. 11 for Identification. Will you examine it, please, and state what it is, if you can?

A. Yes. It's a letter of release to Mayor Andersen, signed by myself on behalf of the Bank, wherein the Bank releases our right to the assignment of the balance of the proceeds due on Mr. Gillis' contract in an approximate amount of \$13,000.00.

(Exhibit No. 11 for Identification is thereupon marked as Exhibit No. 11.)

Q. This is Exhibit No. 11 which you have identified. Was this prepared and delivered to the City as a result of the demand made by letter which is Exhibit No. 10? A. Yes.

Q. And its purpose and effect was to release the balance then due Mr. Gillis under the terms of the contract, his contract, with the City of Nome?

A. Only the balance, yes.

Q. As far as you know, were the balance payments made to Mr. Gillis?

A. I don't really know. Those payments didn't come through the Bank.

Q. After the Bank had paid Mr. Wallace the \$11,225.00 as a redemption, it was then that you talked this matter over with Mr. Gillis?

(Deposition of James G. Manning.)

A. Yes.

Q. And the date of this conversation with Mr. Gillis would be the date of the copy of the cashier's check which is Exhibit No. 9, is that correct? As far as you know?

A. Yes; as near as I can remember, within a day or two of the date of that check.

Q. And the date of Exhibit No. 9 is August 29, 1957, and your conversation with Mr. Gillis at that time would be approximately that date or very near to it, is that correct? A. Yes.

Q. At the time Mr. Gillis' attorney brought the demand letter, which is Exhibit No. 10, to you, did he say anything in regards, if you know, to the \$11,225.00?

A. Mr. Crane did mention that he would like for us to apply that money to the mortgage loan.

Q. That is a prior mortgage loan of the Bank to Mr. Gillis?

A. Yes, of Mr. Gillis' obligations to the Bank.

Q. And that prior mortgage loan is still outstanding? A. Yes; it is.

Q. Was anything said at any time by Mr. Gillis to you or, to your knowledge, to any officers of the Bank, as to the necessity of Mr. Gillis having the \$11,225.00 paid to him at that particular time for any particular purpose? A. No.

Q. Did Mr. Gillis at any time state to you or, to your knowledge, to any officers of the Bank that he had building materials to ship from Seattle to Nome and needed money for such purpose?

(Deposition of James G. Manning.)

A. No; he didn't.

Q. Was anything else ever said by Mr. Gillis as to what disposition should be made of the \$11,-225.00? A. No.

Q. I have no further questions.

/s/ JAMES G. MANNING.

Certificate

This is to certify that the foregoing pages numbered 1 to 25, inclusive, contain a full, true and accurate transcript of the deposition of James G. Manning held before me in Nome, Alaska, on April 5, 1958, in cause No. 4180; and that Exhibits 1 to 11, inclusive, were attached by me to the original;

That prior to the deposition the witness was sworn under oath administered by me;

That I thereafter reported such deposition in stenograph machine shorthand and prepared the foregoing transcript from my original notes to the best of my knowledge and ability;

That I am not related to nor employed by any of the parties hereto, nor their counsel, and that I am not personally interested in the outcome of these proceedings;

That James G. Manning in my presence signed the original of this deposition on the 10th day of April, 1958, and that such original was thereafter

delivered, sealed and marked as to its contents, to the Clerk of the District Court at Nome, Alaska.

Dated at Nome, Alaska, this 10th day of April, 1958.

Witness my hand and notarial seal hereto affixed.

[Seal] /s/ MARY C. DIEDE,

Notary Public for the
Territory of Alaska.

My Commission expires October 24, 1960.

EXHIBIT No. 5

Satisfaction of Real and Chattel Mortgage

Know All Men by These Presents: That the following-described property situated in the Cape Nome Recording District, Territory of Alaska, to wit:

All of Lot Seven (7) in Block "H" according to the official plat of the Townsite of Nome, Alaska, together with the concrete basement already constructed thereon, and the two-story frame building that is about to be acquired and built on said concrete basement and all building materials to be used in the construction of said building now being assembled by the tearing down of the old A. Polet store at the east end of town.

1 Chevrolet $\frac{3}{4}$ ton Truck, Serial No. 6K1707-11141, Motor No. 3545926. All merchandise consisting of bakery and restaurant supplies, including meats, extracts, etc., used in the making of bakery goods or in serving meals, now owned or later acquired, part of which are now stored in a storehouse situated on Lot Fourteen (14) in Block Twenty-one (21) and in the basement of the Breakers Bar at Lot Four (4) in Block "H," and in the Lomen Commercial Company warehouse on their dock property at the West end of the City of Nome.

All furniture, fixtures and equipment now owned or later acquired and installed in the building at Lot Seven (7) in Block "H."

is hereby released and discharged from the lien of that certain Real and Chattel Mortgage dated September 15, 1954, made and executed by Ernest H. Gustafson and Robert H. Renshaw, a partnership doing business under the firm name and title of North Star Bakery, Mortgagors, and the Miners and Merchants Bank of Alaska, a corporation, Mortgagee, and given to secure the payment of the indebtedness evidenced by that certain promissory note in the principal sum of thirty-eight thousand dollars (\$38,000.00) with interest at 8% per annum, dated September 15, 1954, and executed by Ernest H. Gustafson and Robert H. Renshaw and filed in the office of the United States Commissioner of the Cape Nome Recording District, Nome, Alaska,

as Instrument No. 89668, Volume 229, Pages 199-202.

In Witness Whereof, the Miners and Merchants Bank of Alaska has executed this instrument this 30th day of January, 1957.

MINERS AND MERCHANTS
BANK OF ALASKA,

By /s/ JAMES G. MANNING,
Executive Vice President.

Executed in the presence of:

/s/ BEVERLY A. MORGAN,

/s/ WALTER T. HALEY.

Territory of Alaska,
Second Division,
Cape Nome Precinct—ss.

On this 30th day of January, 1957, before the undersigned, a Notary Public in and for the Territory of Alaska, personally appeared James G. Manning, to me known to be the same identical person who signed and executed the foregoing Satisfaction of Real and Chattel Mortgage, and acknowledged to me that he signed and executed the same on the day said release bears date as the free and voluntary act and deed of the Mortgagee, Miners and Merchants Bank of Alaska.

Witness my hand and notarial seal the day and year in this certificate first above written.

[Seal] /s/ BEVERLY A. MORGAN,
Notary Public in and for the Territory of Alaska,
Residing in Nome, Alaska.

My commission expires November 10, 1960.

Admitted April 5, 1958.

EXHIBIT No. 8

Assignment of Contract

The undersigned, Will M. Gillis (hereinafter called "Assignor"), with his principal place of business at Nome, Alaska, for and in consideration of the sum of \$1.00 and other good and valuable consideration to him paid by the Miners and Merchants Bank of Nome, Alaska (hereinafter called "Bank"), receipt whereof is hereby acknowledged, does hereby transfer, set over and assign unto said bank, its successors and assigns, any and all amounts now due or owing, or which may hereafter be or become due or owing, or remain unpaid at any time or times by the City of Nome, Nome, Alaska, to Assignor under or pursuant to the terms of that certain contract (and any amendments and supplements thereto) entered into by and between the undersigned Assignor and City of Nome, described as follows:

That certain Agreement, dated March 20th, 1957, by and between the City of Nome, Alaska, a municipal corporation organized and existing under the laws of the Territory of Alaska, and Will M. Gillis of Nome, Alaska, by the terms of which the Assignor has agreed to

“construct a two-room addition to the present old Nome public school building, as per plans before the City Council of the City, at its meeting of December 28, 1956, known and identified as Sheet No. 1, Nome Public School Building proposed addition, dated December 19, 1956, and, Sheet No. 2, Nome Public School Building proposed addition, dated December 20, 1956,”

has agreed to pay Assignor the sum of \$41,113.72 and the Undersigned Assignor does hereby designate and appoint said Bank, its successors and assigns, its true and lawful attorney or attorneys, with power irrevocable, for him, and in his name, place and stead to ask, demand, receive, receipt and give acquittance for any and all amounts which may become due or payable by the City of Nome, Alaska, under said contract or any amendments or supplements thereto, and in its discretion to file any claim or to take any other action or proceeding, either in its own name, or in the name of the undersigned, or otherwise, which to said Bank or any successor or assignee thereof may seem necessary or desirable in order to collect or enforce the payment of any and all amounts which may become due or owing

on account of said contract, or any amendments or supplements thereto.

Assignor does hereby represent and warrant unto said Bank that no payments have been made on account of said contract except as follows: No Dollars and that Assignor has not heretofore and will not hereafter alienate nor assign said contract or any right or interest therein or thereto.

The acceptance of this assignment by said Bank shall not obligate it to perform any duty, covenant or condition required to be performed by assignor under and by virtue of said contract or any amendments or supplements thereto.

This assignment is made and entered into to secure and provide for the payment of any and all obligations now due or owing or which may hereafter be or become due or owing by the undersigned Assignor to the Bank.

In Witness Whereof, the Assignor has caused this instrument to be duly executed this 21st day of March, 1957.

/s/ WILL M. GILLIS,
Assignor.

The above assignment is agreed to and accepted by the City of Nome.

/s/ STEFFEN ANDERSEN,
Mayor.

United States of America,
Territory of Alaska—ss.

On this 21st day of March, 1957, before me, the undersigned, a Notary Public in and for the Territory of Alaska, duly commissioned and sworn, personally appeared Will M. Gillis, to me known to be the individual described in and who executed the within and foregoing instrument, and acknowledged that he signed the same as his free and voluntary act and deed, for the uses and purposes therein mentioned.

Witness my hand and official seal hereto affixed the day and year in this certificate above written.

[Seal] /s/ FRED D. CRANE,

Notary Public in and for the
Territory of Alaska.

My Commission expires October 15, 1960.

Admitted April 5, 1958.

EXHIBIT No. 9

Not Negotiable.

Purchaser's Receipt
Retain for Your Records
Miners and Merchants Bank
of Alaska

1023

Purchased by: Will Gillis to pay for advance by
bank on Wallace Judgment, i.e., purchase of
North Star note.

Nome, Alaska,
August 29, 1957. 59-11

Payable to: Miners & Merchants Bank of Alaska—
\$11,225.00.

M. and M. Bank of Alaska: \$11,225 and 00 Cts.

Memorandum

Cashier's Check for:

/s/ JAMES G. MANNING.

Admitted April 5, 1958.

EXHIBIT No. 10

Nome, Alaska,
October 10th, 1957.

Miners and Merchants Bank,
Nome, Alaska.

Attention Mr. Manning.

Gentlemen:

On or about the 21st day of March, 1957, an assignment of Contract between Will M. Gillis and the City of Nome was made to you.

Demand is now made upon you to forthwith return the said assignment to me or to my Attorney, Fred D. Crane, and you are requested to notify the City of Nome of your action.

/s/ WILL M. GILLIS.

Admitted April 5, 1958.

EXHIBIT No. 11

Miners and Merchants Bank of Alaska

Established 1904

Nome, Alaska,

September 3, 1957.

Hon. Mayor Steffen Andersen,
City of Nome,
Nome, Alaska.

Dear Sir:

Reference is made to the contract between the City of Nome and Will M. Gillis wherein Mr. Gillis agrees to construct an addition to the Nome School in the amount of \$41,113.72. This contract was assigned to this bank on the 21st of March, 1957.

Please accept this letter as our release of all rights under the above-mentioned assignment to the balance of the proceeds due in the approximate amount of \$13,000.00. By this notice we only intend to release the balance that is due and unpaid Mr. Gillis.

Yours very truly,

/s/ JAMES G. MANNING,

Executive Vice President.

JGM/bm.

cc: City Clerk.

Admitted April 5, 1958.

[Endorsed]: Filed April 11, 1958.

[Title of District Court and Cause.]

STIPULATION FOR TAKING OF DEPOSITION
UPON ORAL EXAMINATION OF
JAMES G. MANNING

It is stipulated between plaintiff and defendant that the deposition of James G. Manning may be taken upon oral examination before a notary public for the Territory of Alaska, or before some other officer authorized by law to take depositions, at Federal Building, Nome, Alaska, at 2:00 p.m., for the purpose of discovery or use as evidence by either party in the above action or for both purposes, on April 5, 1958.

Dated: April 3, 1958.

/s/ FRED D. CRANE,
Attorney for Plaintiff.

/s/ JAMES A. von der HEYDT,
FAULKNER, BANFIELD &
BOOCHEVER,

/s/ JOHN H. DIMOND,
Attorneys for Defendant.

[Endorsed]: Filed April 11, 1958.

[Title of District Court and Cause.]

DEPOSITION OF ERNEST H. GUSTAFSON

Nome, Alaska,
April 5, 1958.

Appearances:

MR. JAMES A. von der HEYDT,
Nome, Alaska,
Attorney for Defendant.

Deposition of Ernest H. Gustafson, a witness of lawful age, taken on behalf of the defendant, pursuant to stipulation filed herein, before Mary C. Diede, Official Court Reporter and Notary Public in and for the Territory of Alaska, at approximately 3:30 p.m., April 5, 1958, in the Federal Building at Nome, Alaska, Mr. James A. von der Heydt, attorney for the defendant, appeared on behalf of the defendant; Mr. Fred D. Crane, attorney for the plaintiff, did not appear.

Mr. Von Der Heydt: At the beginning of this deposition I would like to state that I am appearing on behalf of the defendant, Miners and Merchants Bank, in the taking of the deposition of Ernest H. Gustafson, and that this deposition is taken on behalf of the defendant pursuant to stipulation of the parties by and through their attorneys, myself and Mr. Fred D. Crane, which is dated April 3, 1958. The original signed copy of this stipulation has been handed to the Court Reporter. Mr. Crane has stated that it is not his wish to be present and the defend-

ant has agreed to furnish him with a copy of the deposition. It is also agreed and stipulated between the parties that all objections as to relevancy and materiality of the questions will be reserved to the time of trial.

ERNEST H. GUSTAFSON

being first duly sworn, on oath, deposes and says:

Direct Examination

By Mr. Von Der Heydt:

Q. Will you state your name, please?

A. Ernest H. Gustafson.

Q. And where do you reside?

A. At Nome, Alaska.

Q. Are you one of the partners in the co-partnership doing business at Nome, Alaska, under the name of North Star Bakery and Hotel?

A. Yes; I am.

Q. When was this partnership formed?

A. 1951.

Q. Where was it formed?

A. At Nome, Alaska.

Q. What is its business?

A. Its business, the North Star Bakery and Grill, Breakers Bar and the North Star Hotel.

Q. Who are the other partners?

A. Robert H. Renshaw, and my wife, Elizabeth W. Gustafson.

Q. I now hand to the Reporter Exhibit No. 1 for Identification and ask her to mark it as such.

(Deposition of Ernest H. Gustafson.)

(A document entitled "Installment Promissory Note" is then marked by the Reporter as Exhibit No. 1 for Identification.)

Q. Now, Mr. Gustafson, I hand you a document which is marked Exhibit No. 1 for identification, which appears to be an installment promissory note, dated September 15, 1954, in the principal sum of \$19,854.83, and which appears to have been signed by you and by your partner, Mr. Renshaw. Can you identify this instrument and, if so, will you state what it is?

A. This is an installment promissory note to secure a real and chattel mortgage on the North Star Bakery in regards to an amount of money owed Will M. Gillis as a result of a fire we had.

Q. When you say, when you mention a real and chattel mortgage—— A. A second.

Q. You mean that real and chattel mortgage was given to secure this note? Is that right?

A. That is correct.

Q. And if I understand you correctly, the amount of this note is the amount of loss of Mr. Gillis on account of a fire of the North Star property?

A. That is right.

Q. Approximately when was this fire?

A. The last day of October, 1953.

Q. This instrument, Exhibit No. 1 for Identification, bears your signature?

A. That is correct.

Q. And the signature of Robert H. Renshaw?

(Deposition of Ernest H. Gustafson.)

A. That is right.

Q. And it was executed by you and Mr. Renshaw on the date set forth therein?

A. That is right.

Q. What was that date?

A. September 15, 1954.

(Exhibit No. 1 for Identification is thereupon marked as Exhibit No. 1.)

Q. Why was this promissory note executed?

A. To secure an indebtedness we had incurred as a result of a fire.

Q. Was this note delivered to Mr. Gillis?

A. It was.

Q. Was it delivered to him upon the date of its execution? A. It was.

Q. What security, if any, did the North Star partnership give to Mr. Gillis as a result of the indebtedness evidenced by Exhibit No. 1?

A. We gave him a second real and chattel mortgage on the North Star Bakery property and building and contents therein.

(A document entitled "second real and chattel mortgage"—photostat—is marked by the Reporter as Exhibit No. 2 for Identification.)

Q. I now hand you Exhibit No. 2 for Identification which is entitled "Second Real and Chattel Mortgage" and which is dated September 15, 1954. Will you examine this exhibit and tell us what it is, if you know?

(Deposition of Ernest H. Gustafson.)

A. Yes. This is the second real and chattel mortgage to secure Will M. Gillis' interest in the North Star Bakery building and made in regards to the installment promissory note that we signed along with this.

Q. And that installment promissory note is the one which is Exhibit No. 1?

A. That is correct.

Q. At the time of the execution and delivery by you of this second real and chattel mortgage—first, I will hand to the Court Reporter this Exhibit No. 2 for Identification and ask that it be marked as an Exhibit.

(Exhibit No. 2 for Identification is thereupon marked as Exhibit No. 2.)

Q. At the time of the execution and delivery by you of the second real and chattel mortgage which is Exhibit No. 2, to Mr. Gillis, did you also give to the Miners and Merchants Bank a first mortgage of the identical property?

A. That is correct.

Q. Now for what indebtedness was this mortgage to the bank given as security?

A. The first mortgage was given to the Bank in an amount of \$38,000.00.

Q. With respect to Exhibit No. 1, that is the promissory note from you to Gillis in the amount of \$19,854.83, what payments were made, if any, by you to Gillis on that obligation?

(Deposition of Ernest H. Gustafson.)

Q. There were no installments due on the promissory note until September 15, 1957, I believe.

Q. Was any interest paid?

A. There was interest paid.

Q. Do you know the amounts and dates of such payments?

A. Offhand I couldn't give you the correct dates.

Q. What was the approximate amount paid?

A. There was one amount paid of approximately \$2,400.00, at one time.

Q. Did you have occasion to be present at a meeting held in the offices of the Miners and Merchants Bank at Nome on or about the 30th day of January, 1957, at which meeting were present besides yourself, Mr. Renshaw, Mr. James G. Manning, and Mr. Will M. Gillis? A. Yes.

Q. What was the purpose of this meeting?

A. The purpose of this meeting was to clear off the second real and chattel mortgage, so arrangements could be made to refinance our operation.

Q. When you refer to a second real and chattel mortgage you refer to the mortgage to Mr. Gillis, which is Exhibit No. 2? A. That is correct.

Q. Which secured the promissory note which is Exhibit No. 1? A. That is correct.

Q. At this meeting what took place and what agreements, if any, were made amongst the parties present?

A. Will M. Gillis agreed to release the second real and chattel mortgage and promissory note for the amount of \$15,000.00, which was paid to him.

(Deposition of Ernest H. Gustafson.)

Q. Did the \$15,000.00 which was paid to Mr. Gillis constitute a loan from the Bank to the North Star partnership? A. That is correct.

Q. And did not Mr. Gillis execute a satisfaction of his second real and chattel mortgage and an assignment of his interest in that to the Bank?

A. He did.

(A document entitled "Satisfaction of Second Real and Chattel Mortgage" is handed to the Court Reporter and marked Exhibit No. 3 for Identification.)

Q. I now hand you, Mr. Gustafson, Exhibit No. 3 for Identification, which is entitled satisfaction of second real and chattel mortgage and which is dated January 30, 1957, and which is signed by Will M. Gillis. If you can, will you identify that and tell us what it is?

A. This is a release and satisfaction of second real and chattel mortgage whereby Will M. Gillis released all interest in the North Star Bakery by our paying him \$15,000.00. In return we were to receive the release on the above.

(Exhibit No. 3 for Identification is then marked as Exhibit No. 3.)

Q. After the satisfaction of the second real and chattel mortgage held by Mr. Gillis, and which is evidenced by Exhibit No. 3, what was the status of the first mortgage from the North Star Bakery partnership to the Miners and Merchants Bank,

(Deposition of Ernest H. Gustafson.)

which had been executed on September 15, 1954, and which secured a loan to the North Star of \$38,000.00? A. Will you repeat that again, sir?

(The reporter thereupon read the previous question.)

A. The first mortgage was still outstanding.

Q. And did it not then remain the only obligation secured by the mortgage of the North Star partnership? A. That is correct.

Q. At the time of the conference on or about January 30, 1957, did you and your partners execute a new mortgage to the Bank to secure the loan of \$15,000.00 plus the balance of the \$38,000.00 and other moneys?

A. Yes; a new one was drawn up.

Q. What was the total amount of the new mortgage? A. \$110,000.00.

Q. What payments were made to Mr. Gillis at this time?

A. Mr. Gillis was paid \$15,000.00 to clear his second real and chattel mortgage that he held on the North Star Bakery building.

Q. Was it the understanding of all parties at this time that this amount of money was full satisfaction of this note and mortgage?

A. It was.

Q. To your recollection, did Mr. Gillis say anything at that time which would indicate his full understanding of this?

(Deposition of Ernest H. Gustafson.)

A. It was agreed that the \$15,000.00 payment would settle it in full.

Q. Was the \$15,000.00 paid to him?

A. It was.

Q. Was this paid in cash? A. Yes; it was.

Q. At the time of the conversation at the Bank on or about January 30, 1957, and about which you have previously testified, did Mr. Gillis make any statements at all which would indicate where the note which has been marked as Exhibit No. 1 was located? A. No; he did not.

Q. Did he say anything at all about the note having been attached by the United States Marshal?

A. No; he did not.

Q. Are you now aware of the fact that at the time these transactions took place said note had been attached by the United States Marshal and was not in Mr. Gillis' possession or under his control? A. We were aware of it at a later date.

Q. If you remember, when and under what circumstances did you first discover this fact?

A. When the Marshal's attachment in the Joe Wallace-Will M. Gillis suit was brought to our attention.

Q. By attachment, you mean the execution, do you not? A. The execution, that is correct.

Q. When you refer to the Wallace-Gillis suit, you refer, do you not, to a civil action which was tried in Nome, in the Nome Court, at the end of February, 1957? In which Mr. Wallace obtained judgment against Mr. Gillis?

(Deposition of Ernest H. Gustafson.)

A. That is correct.

Q. If you had known at the time the transaction took place and at the time Mr. Gillis was paid the \$15,000.00, that the note was attached by the U. S. Marshal and not in Mr. Gillis' possession, would your actions have been different with respect to obligating yourself for an additional \$15,000.00 debt at the Bank? A. Yes; they would have.

Q. What would your actions have been?

A. We would not have paid Will M. Gillis the \$15,000.00 until he was able to produce said note and second real and chattel mortgage.

Q. Do you recall that some time in June, 1957, the United States Marshal posted a notice that he would sell at a definite time and place the promissory note which is Exhibit No. 1 herein, together with all of Mr. Gillis' interest in the North Star property? A. Yes.

Q. Do you recall how this notice was brought to your attention?

A. In the post office on the bulletin board.

Q. That is, you saw it posted?

A. I saw it posted there on the bulletin board.

Q. After you received notice that the Marshal intended to make the sale of this note, what action did you take?

A. We filed a third-party claim.

(A document entitled "Third Party Claim" is handed to the Reporter and marked as Exhibit No. 4 for Identification.)

(Deposition of Ernest H. Gustafson.)

Q. I now hand you, Mr. Gustafson, Exhibit No. 4 for Identification, which is entitled Third-Party Claim and which is dated June 26, 1957. Will you examine this and, if you can, tell us what it is?

A. Yes. This is a Third-Party Claim to protect—filed in order to protect our interest in the North Star Bakery building.

Q. Who was this filed with?

A. It was filed with the United States Marshal.

(Exhibit No. 4 for Identification is thereupon marked as Exhibit No. 4.)

Q. What action, if you know, did the Marshal take with respect to your claim?

A. Joseph Wallace was required to post bond.

Q. Was the note and property then sold by the Marshal pursuant to notice of sale despite the filing of your third-party claim?

A. Yes; it was.

Q. Was this done to satisfy the judgment against Will M. Gillis held by Joseph Wallace?

A. It was.

(Exhibit No. 5 for Identification, a document entitled "Notice," was then so marked by the Reporter.)

Q. Mr. Gustafson, I now hand you Exhibit No. 5 for Identification which is entitled "Notice," which is a copy of an instrument signed by yourself, Mr. Renshaw and the Executive Vice President of the Miners and Merchants Bank. If you can, will you state what this is?

(Deposition of Ernest H. Gustafson.)

A. Yes. This is a notice of redemption that we intended to redeem from Joe Wallace any and all interest of Will M. Gillis of a certain promissory note held by Joe Wallace.

(Exhibit No. 5 for Identification is then marked as Exhibit No. 5.)

Q. Did you execute the document now marked as Exhibit No. 5? A. Yes; we did.

Q. What was your purpose in executing Exhibit No. 5?

A. It was to inform Joseph Wallace that we intended to redeem the second real and chattel mortgage that he held in his possession, and the installment promissory note also.

(Exhibit No. 6 for Identification, a document entitled "Certificate of Redemption," is so marked by the Reporter.)

Q. Mr. Gustafson, I hand you Exhibit No. 6 for Identification which is entitled "Certificate of Redemption" and which is dated July 18, 1957, and signed by Joseph Wallace. Can you identify such and, if so, state what it is?

A. Yes. This is a certificate of redemption showing Joseph Wallace was paid \$11,225.00 in full satisfaction for all his right, title and interest in this second real and chattel mortgage and promissory note.

Q. And those instruments just referred to are the ones here which are Exhibits 1 and 2?

(Deposition of Ernest H. Gustafson.)

A. That is correct.

(Exhibit No. 6 for Identification is thereupon marked Exhibit No. 6.)

(Exhibit No. 7, a document entitled "Assignment," is marked by the Reporter as Exhibit No. 7 for Identification.)

Q. I now hand you Exhibit No. 7 for Identification, which is entitled "Assignment," and which is dated October 7, 1957, and bearing your signature as a partner in the North Star Bakery. Can you identify this instrument and, if so, will you please state what it is?

A. Well, we assign all our right and interest, whatever it may be, in the action against Will M. Gillis of Nome, or Gillis Construction Co. of Nome, upon a certain installment promissory note in the amount of \$19,845.83, which note was purchased by the Bank which note was purchased by us and later redeemed from judgment creditor Joe Wallace in the sum of \$11,225.00.

(Exhibit No. 7 for Identification was then marked as Exhibit No. 7.)

Q. To whom was this assignment made?

A. The Miners and Merchants Bank.

Q. Was this instrument delivered to the Bank?

A. It was.

Q. And is the date appearing upon the instrument and the date of your signature, the actual date of such?

A. Yes; it is.

(Deposition of Ernest H. Gustafson.)

Q. Did you intend by Exhibit No. 7 to transfer to the Bank all of your claims and the receipts of the action against Will M. Gillis with respect to the transaction on the promissory note which is Exhibit No. 1, about which you testified?

A. Yes; we did.

Q. I have no further questions.

/s/ ERNEST H. GUSTAFSON.

Certificate

This is to certify that the foregoing pages numbered 1 to 13, inclusive, contain a full, true and accurate transcript of the deposition of Ernest H. Gustafson, held before me in Nome, Alaska, on April 5, 1958, in cause No. 4180; and that Exhibits 1 to 7, inclusive, were attached by me to the original;

That prior to the deposition the witness was sworn under oath administered by me;

That I thereafter reported such deposition in stenograph machine shorthand and prepared the foregoing transcript from my original notes to the best of my knowledge and ability;

That I am not related to nor employed by any of the parties hereto, nor their counsel, and that I am not personally interested in the outcome of these proceedings;

That Ernest H. Gustafson in my presence signed the original of this deposition on the 10th day of April, 1958, and that such original was thereafter delivered, sealed and marked as to its contents, to the Clerk of the District Court at Nome, Alaska.

Dated at Nome, Alaska, this 10th day of April, 1958.

Witness my hand and notarial seal hereto affixed.

[Seal] /s/ MARY C. DIEDE,

Notary Public for the
Territory of Alaska.

My Commission expires October 24, 1960.

[Endorsed]: Filed April 11, 1958.

[Title of District Court and Cause.]

STIPULATION FOR TAKING OF DEPOSITION
UPON ORAL EXAMINATION OF
ERNEST H. GUSTAFSON

It is stipulated between plaintiff and defendant that the deposition of Ernest H. Gustafson may be taken upon oral examination before a notary public for the Territory of Alaska, or before some other officer authorized by law to take depositions, at Federal Building, Nome, Alaska, on April 5, 1958, at 3:00 p.m., for the purpose of discovery or use as evidence by either party in the above action or for both purposes.

Dated: April 3, 1958.

/s/ FRED D. CRANE,
Attorney for Plaintiff.

/s/ JAMES A. von der HEYDT,
FAULKNER, BANFIELD &
BOOCHEVER,

/s/ JOHN H. DIMOND,
Attorneys for Defendant.

[Endorsed]: Filed April 11, 1958.

[Title of District Court and Cause.]

DEFENDANT'S MOTION FOR
SUMMARY JUDGMENT

Defendant moves the court to enter summary judgment for the defendant in accordance with the relief sought in its answer and counterclaims herein.

This motion is based upon the pleadings in this action, the depositions of James G. Manning and Ernest H. Gustafson heretofore filed herein, and the affidavit of James A. von der Heydt of April 10, 1958, annexed hereto.

This motion will also be supported by a comprehensive brief which will demonstrate that there is no genuine issue as to any material fact and that defendant, as a matter of law, is entitled to judgment on its counterclaims. This brief has been drafted in rough form but could not be completed

until plaintiff had made his replies to defendant's counterclaims. Now that such replies have been served and filed herein, defendant's brief in support of this motion will be completed with dispatch and promptly served and filed in this action.

Dated: May 2, 1958.

/s/ JAMES A. von der HEYDT,
FAULKNER, BANFIELD &
BOOCHEVER,

/s/ JOHN H. DIMOND,
Attorneys for Defendant.

Affidavit

United States of America,
Territory of Alaska—ss.

James A. von der Heydt, being first duly sworn, deposes and says:

I am a resident of Nome, Alaska, and have been such for nearly 14 years. Since March 1, 1953, I have been engaged in the private practice of law at Nome, and since that date have been attorney for the Miners and Merchants Bank of Alaska, Nome, Alaska. Also, from time to time, I have performed legal services for the North Star Bakery, a partnership doing business at Nome, Alaska.

During the time that I was absent from Nome to attend the 1957 Session of the Alaska Legisla-

ture, being January 18, 1957, through April 1, 1957, I received correspondence from Mr. James G. Manning, Executive Vice President of the Miners and Merchants Bank, Nome, to the effect that the bank had been successful in refinancing the loan to the North Star Bakery, Nome, Alaska. The North Star Bakery is a partnership business owned and operated at Nome by the partners, Ernest H. Gustafson, Robert H. Renshaw, and Elizabeth Gustafson. The said business consists of a large two-story frame business building with full concrete basement, resting on Lot 7 in Block H, City of Nome, Alaska.

Shortly after my return to Nome, after the Legislative Session, or during the first week of April, 1957, the matter of the new refinanced loan of the bank to the North Star partnership was called to my attention, and I was asked, as attorney for the bank, to investigate a report that a certain installment promissory note, which had played a part in the refinancing arrangements between the bank and the North Star partnership, was actually held by the U. S. Marshal at Nome, under attachment. The note referred to was that note dated September 15, 1954, which was prepared by myself, and executed in my presence by Ernest H. Gustafson and Robert H. Renshaw, as partners in the North Star partnership hereinabove referred to, and delivered in my presence to Will M. Gillis, of Nome, Alaska, on that date. The said note is an installment promissory note in the principal sum of \$19,854.83. The

Will M. Gillis mentioned above is the same Will M. Gillis who is plaintiff in a civil action, number 4180, in the District Court for the Second Judicial Division of Alaska, Will M. Gillis vs. Miners and Merchants Bank. The said installment promissory note was secured by a Second Real and Chattel Mortgage upon the North Star building and other property, and this second mortgage was executed and delivered to Mr. Gillis in my presence at Nome, on September 15, 1954. The Miners and Merchants Bank of Alaska, Nome, held a prior first mortgage upon the same property, which mortgage was fully satisfied at the time of the refinanced loan referred to first above.

Upon investigation, I found that the actual installment promissory note of September 15, 1954, was in the possession of the United States Marshal, Nome, Alaska, under attachment in a civil action which had been tried in Nome in late February, 1957, in the District Court. This action was Joseph Wallace vs. Will M. Gillis, No. 4107. I further ascertained that the note had been surrendered to the marshal by Mr. Gillis under writ of attachment issued in civil action number 4107 upon the original filing of that suit in the Fall of 1956, and that upon trial in late February, 1957, Mr. Wallace had obtained judgment against Mr. Gillis in a total sum of slightly over \$15,000.00. The marshal also informed me that as far as he knew, he would be asked to sell the said note and the interest secured therein in the North Star property, at marshal's

sale, in order to satisfy the judgment of Mr. Wallace against Mr. Gillis.

At this time I contacted Mr. Fred D. Crane, attorney for Mr. Gillis in the case brought by Joseph Wallace. The first meeting with Mr. Crane was on or about the 20th day of April, 1957, at Mr. Crane's office. I discussed the matter of the attached note with Mr. Crane, and the position of the parties involved, that is, that the North Star partners had purchased, in good faith, the installment promissory note under attachment, from Mr. Gillis, in late January, 1957, for the cash sum of \$15,000.00, and that Mr. Gillis had executed a full satisfaction of the said note and second real and chattel mortgage upon receipt of these funds. I further pointed out to Mr. Crane that the sale of this note at marshal's sale to a third party under the circumstances would force the North Star partners or the Miners and Merchants Bank, as holder of a large refinanced loan to the North Star partnership, to protect their interests. I asked Mr. Crane to discuss this matter with Mr. Gillis in an effort to reach a fair and equitable solution to the problem, and in order that no parties involved would be injured. Mr. Crane agreed to discuss the situation with Mr. Gillis in an effort to reach a solution, and to advise me.

Nearly a month went by, and I did not hear anything from either Mr. Crane or Mr. Gillis.

During the latter part of May, 1957, I again contacted Mr. Crane about the matter which we had

previously discussed, and informed him that insofar as I was able to learn from the office of the U. S. Marshal, at Nome, the said installment note was to be sold at marshal's sale to satisfy the balance due in the Wallace-Gillis judgment in the next few weeks. Mr. Crane did not state anything definite, but indicated in a general way that he had mentioned the matter to Mr. Gillis, but that Mr. Gillis was not willing to take any steps to protect the North Star partners or the bank at this time. I again pointed out to Mr. Crane the serious possible consequences of the situation if the note fell into the hands of a third party at marshal's sale. Mr. Crane said he would see what he could do, but I heard nothing from him.

On or about the 18th day of June, 1957, the U.S. Marshal posted Notice of Sale of the said installment promissory note, together with the interest secured in the property of the North Star partners, Lot 7, Block H, City of Nome, such sale to be held June 28, 1957, at Nome. Again, at this time, I contacted Mr. Crane to see if Mr. Gillis would not take some steps to protect the North Star partners and the bank from whom he had accepted \$15,000.00 in cash for the note now being sold under attachment. Mr. Crane was informed of the date of the sale at that time. Several times in the intervening period of ten days between the posting of Notice by the marshal and the actual sale, Mr. Crane was contacted in an effort to reach a solution which would work no hardship on any party involved. At

no time was any suggested solution offered by Mr. Gillis or his attorney. At one time, before the marshal's sale, I met Mr. Gillis, and since Mr. Crane had previously indicated he would have no objection to my talking to Mr. Gillis myself, I asked Mr. Gillis to discuss the matter of the note sale with me. He refused to do so, and turned and walked away.

Two days prior to the marshal's sale of the said note, I prepared and filed on behalf of the North Star partnership, a Third Party Claim as to the ownership of the installment promissory note to be sold. This Third Party Claim was executed by Ernest H. Gustafson on behalf of the partnership, and filed with the U. S. Marshal, Nome. Mr. Wallace was notified of this claim by the marshal, and he was asked to post bond, which he did.

At the time of the marshal's sale, Mr. Wallace and his attorney, Mr. Robert Parrish, appeared. I was also present, as was Chief Deputy Marshal George A. Bayer. Neither Mr. Gillis nor Mr. Crane were present. At this time, Mr. Wallace bid the sum of \$11,225.00 for the note and interest in the North Star property represented thereby. This sum, \$11,225.00, was the then balance due upon the Wallace-Gillis judgment, and satisfied such in full, together with all costs and fees. The note was later delivered by the marshal to Mr. Wallace's attorney, Mr. Robert Parrish, of Fairbanks.

A few days following the marshal's sale of the said installment note, or approximately on the 6th

or 7th of July, 1957, I received a long distance telephone call from Mr. Parrish, indicating that he and Mr. Wallace had found a buyer for the note purchased at marshal's sale in Nome, and that unless the North Star partners or the bank redeemed, Mr. Wallace would sell the note. I advised Mr. Parrish that I would let him know within two or three days. At that time I again called upon Mr. Crane, and advised him that both the North Star partners and the bank, in order to protect themselves, were in a position of being forced to redeem the note from Mr. Wallace. Mr. Crane stated that Mr. Gillis was not willing to take any steps to assist either the North Star partners or the bank, though no denial was ever made that Mr. Gillis had received \$15,000.00 for full satisfaction of the said note.

Therefore, in order to protect the large refinanced loan of the bank to the North Star, of January, 1957, which because of the circumstances, had become inferior to the Second Real and Chattel mortgage dated September 15, 1954, and delivered to Mr. Gillis to secure the note which was sold at marshal's sale, and to protect the bank and North Star from suit by a third person upon the note, the North Star partners and the bank gave notice of intent to redeem, for the sum of \$11,225.00. This was done, and through funds furnished by the Miners and Merchants bank, the note, secured by the second real and chattel mortgage, was redeemed. Because of the continued financial strain upon the

North Star partnership in their rebuilding program as a result of the fire, the partnership had no funds with which to redeem.

The installment promissory note of September 15, 1954, which was sold to Mr. Wallace at marshal's sale, was delivered to me as attorney for the bank by Mr. Parrish at the time of payment to Mr. Wallace of \$11,225.00, the redemption amount. This payment was made at Mr. Parrish's office in Fairbanks, Alaska, on July 16, 1957.

Some few days after my return to Nome, which was approximately one week after the 16th day of July, 1957, I met Mr. Crane in Nome. Mr. Crane asked me if the bank or the North Star partners had redeemed the note, to which I answered in the affirmative. At this time I again asked Mr. Crane if some agreement could not be reached which would not injure any of the parties involved. Mr. Crane answered that he would talk to Mr. Gillis again sometime, but I was never informed if this conversation took place.

No suggestions were ever made by Mr. Gillis or his attorney as to a possible solution to the difficulty, nor did either ever indicate any desire to hold a conference to discuss the matter. This is the situation which existed at the time of the filing of Mr. Gillis' suit against the Miners and Merchants Bank.

Dated this 10th day of April, 1958, at Nome, Alaska.

/s/ JAMES A. von der HEYDT.

Subscribed and sworn to before me this 10th day of April, 1958, at Nome, Alaska.

[Seal] /s/ ROBERT F. SCOTT,
Notary Public for Alaska.

My commission Expires Oct. 28, 1961.

Receipt of copy acknowledged.

[Endorsed]: Filed May 2, 1958.

[Title of District Court and Cause.]

Affidavit

United States of America,
Territory of Alaska—ss.

Robert A. Parrish, being first duly sworn, upon his oath, deposes and says: That he is an attorney at law and on the 18th day of February, 1957, was duly authorized to practice in the District Court for the District of Alaska, Second Division, and was on said day, or thereabouts, in Nome, Alaska, for the purpose of engaging in the trial of Joseph Wallace vs. Will M. Gillis, No., a case involving a transaction relating to the North Star Bakery, a second mortgage upon said building and land, and a certain promissory note, the indebtedness relating to said mortgage. That at the beginning of said action, as is more particularly evidenced by the records and filed therein, the said

note was attached and the same taken into the possession of the U. S. Marshal of the Second Division, Territory of Alaska, and posting made upon the subject property, to-wit: The North Star Bakery, had been made.

That on the said 18th day of February, 1957, in the company of his client, Joseph Wallace, at approximately the hour of 9:30 in the morning, Affiant and his client went to the office of the U. S. commissioner to check the status of the said second mortgage; that affiant and his client, the said Joe Wallace, were informed by the U. S. commissioner, then on duty, that the said mortgage had been released by the Defendant in the case and from some source it appeared that Miners & Merchants Bank had been a party to the negotiation of the new mortgage between the North Star Bakery and said bank. That thereupon the said Joe Wallace and your Affiant did go to the Miners and Merchants Bank and request to see one Jerry Manning, who your Affiant believes to have been president of the said bank or acting manager, and upon being taken into the office of the said Jerry Manning, Affiant inquired as to the status of the mortgage and payments due thereon. The said Jerry Manning did then and there inform Affiant and his client, Joseph Wallace, that the bank had executed a new mortgage with the North Star Bakery, making arrangements to assimilate in some manner, the exact nature of which your Affiant is without further review, the interest of the said Gillis in the second

mortgage and note under attachment in the case to be tried by your Affiant and his client. That the said Jerry Manning then and there stated that the sum of approximately \$2,000.00 or \$3,000.00, which at any rate, was the amount due from the North Star Bakery to the said Gillis at the time of the attachment, was being held for payment over by virtue of the levy upon the said attachment; that affiant at that time informed the said Jerry Manning that he believed that the bank was operating under a mistake of law. However, the said Jerry Manning did then and there say that the transaction had been made with the advice of an attorney and in the presence of Mr. Gillis and the owners of North Star Bakery. Very little if anything else was said and your Affiant and Mr. Wallace left the bank. Thereafter, judgment was obtained upon the said note and that judgment was settled by the said bank. The facts pertaining to this judgment and settlement would more clearly appear in the records and files in that case. Affiant does not know anything concerning the transaction between Gillis and the owners of North Star Bakery and the bank than what was told to him by the said Jerry Manning at that time and he did not discuss the case with the owners of the North Star Bakery or the said Gillis.

Further your Affiant sayeth not.

/s/ ROBERT A. PARRISH,
Affiant.

Subscribed and sworn to before me this 13th day of May, 1958.

[Seal] /s/ WARREN WM. TAYLOR,
Notary Public in and for the Territory of Alaska.
My Commission Expires May 7, 1961.

[Endorsed]: Filed June 13, 1958.

[Title of District Court and Cause.]

AFFIDAVIT

United States of America,
Territory of Alaska—ss.

Fred D. Crane being first duly sworn on an oath deposes and says: That he is an attorney for Will M. Gillis. That I have read the Affidavit of James Von Der Heydt that it is quite correct if your affiant asked about the above case, but your affiant never had any time rendered an opinion or made any definite statement. Your affiant is however discuss the case G. R. Jackson who is then President of the Miners and Merchants Bank of Alaska the particular discussion was the right of the note to attached your affiant stated that he had not gone into the question but that he knew that Mr. Parrish was a careful attorney and undoubtedly he knew his procedure.

Your affiant later examined the matter and concurred with Mr. Parrish at the time the transaction was made between Will M. Gillis and the Miners

and Merchants Bank and the North Star, your affiant was not requested or invited to be present although it was well-known that your affiant was the attorney for Will M. Gillis and the defendant in this action bought Gillis' equity well knowing that the note, mortgage and assets of Will M. Gillis were under attachment.

/s/ FRED D. CRANE.

Subscribed and sworn to before me this 13th day of June, 1958.

[Seal] /s/ MARY C. DIEDE,
Notary Public in and for the Territory of Alaska.

My Commission expires Oct. 24, 1960.

[Endorsed]: Filed June 13, 1958.

[Title of District Court and Cause.]

TRANSCRIPT OF DECISION ON MATTER
FOR SUMMARY JUDGMENT

Before: Honorable Walter H. Hodge,
District Judge.

Appearances:

TAYLOR & TAYLOR,
Fairbanks, Alaska, and

FRED D. CRANE,
Nome, Alaska,
For Plaintiff.

JAMES A. von der HEYDT,
Nome, Alaska,
For Defendant.

Nome, Alaska, June 13, 1958.

Be It Remembered that at 2:00 p.m., Friday, June 13, 1958, the above-entitled matter came on to be heard with respect to the defendant's motion for summary judgment. Mr. von der Heydt was present in court; counsel for the plaintiff did not appear.

The Court: This is the time set for the hearing as twice continued at the request of the plaintiff, of the motion of the defendant for summary judgment in the case of Will P. Gillis vs. The Miners and Merchants Bank of Alaska, No. 4180. It appears that oral argument on the motion will not be necessary or required by the Court, pursuant to the provisions of Rule 5 (c) of our Amended Uniform Rules. The record may show counsel for the defendant present. One of the joint counsel for the plaintiff is confined in the hospital, but we have been in touch with him several times concerning this matter and he informed me just this morning that he would not request oral argument on the matter and agreed that the matter be submitted upon the pleadings, the depositions, the affidavits and the briefs on file, and I understand from counsel for the defendant Bank that he is likewise agreeable.

Mr. Von Der Heydt: Yes, your Honor. I would like only to state that I have had no opportunity to read Mr. Crane's affidavit or Mr. Parrish's affidavit

which the Court Reporter just handed me as you came in the room, but I presume——

The Court: I think we can dispose of those also, without this necessity of hearing from you concerning them.

It will be noted that plaintiff's brief in opposition to defendant's motion was received just today, which may be filed, from the office of Taylor and Taylor at Fairbanks, together with an exhibit and together with the affidavits of Fred D. Crane and of Robert A. Parrish, which may be filed. This despite the fact that this motion has been set for hearing since May 6, or more than a month, and that defendant's brief has been on file since May 17, and the depositions in support of the motion have been on file since April 11. Ample opportunity has then been afforded the plaintiff to oppose the motion.

I have gone into the matter very thoroughly and am prepared to announce decision upon it at this time. The situation is rather complex, but yet in the final analysis, I find that the issues are quite simple. In the first place two things are essential to be shown in order that the court may grant the relief requested by the defendant on its counterclaims, pursuant to Rule 56 of the Federal Rules of Civil Procedure. The first, of course, is that the pleadings, depositions, affidavits and admissions on file show that there is no genuine issue as to any material fact, and the second is that it must be shown that the moving party is entitled to judgment as a matter of law.

Taking up first the matter of whether or not there

is any genuine issue, I refer first to the pleadings. All of the material allegations of the defendant's counterclaim are admitted by the reply of the plaintiff, except as to certain facts which are denied either generally or on information and belief. Most significant to me is the admission in the reply of the allegation of the Bank that at the time plaintiff received from the defendant the sum of \$15,000.00 in full payment of the promissory note held by him of which the North Star Partners were the makers, the plaintiff knew that the note was not in his possession but had been attached by the United States Marshal. That admission to me is most controlling here. The plaintiff does deny that he intentionally withheld and kept such fact from the knowledge of the defendant and the North Star for the purpose of obtaining payment of \$15,000.00. But I do not believe that such intention, if that be true, is material here. The fact is that he accepted payment of the note which he did not then have in his possession or control.

As to the other denials, it has been held by this Court upon authority of other decisions, that mere denials are not sufficient to prevent the entry of a summary judgment, and that is especially true where the depositions and affidavits reveal no dispute of any material fact, and I am referring to the decision in the case of *Weston vs. Noble*, reported in 19 Federal Rules Decisions at page 416, in a case I had at Fairbanks, and the case of *Engl vs. Aetna Life Insurance Co.*, 139 F. 2d 469, together with

other authorities referred to in defendant's supplemental brief.

Turning then to the depositions and affidavits, upon very careful analysis I find only one supposed issue of fact controverted, and that is the allegation of the plaintiff that the defendant Bank knew of the attachment of the note and interest of the North Star under the mortgage securing the note at the time they made payment of it to Gillis. The depositions of Mr. James G. Manning of the Bank, and of Ernest Gustafson of the North Star partnership, deny that. In response to such allegation, the plaintiff has filed an affidavit of Robert A. Parrish who was the attorney for Joseph Wallace in the suit against Gillis in which the note was attached, and by this affidavit he recites a conversation with Mr. Manning of the Bank on the 18th of February, 1957, regarding the sale by the Marshal of this note, which was subsequent to the attachment, but prior to the sale. It is significant that this conversation was after the payment by the Bank to Gillis, which was on January 30. Therefore, this affidavit does not controvert the allegation of the Bank that they had no such knowledge. The affidavit of Mr. Crane states broadly that the defendant bought Gillis' equity well knowing that the note, mortgage and assets of Will M. Gillis were under attachment. That is not supported by any definite statement of fact. I also find that even if it were true that the Bank knew or should have known of such attachment, such knowledge or imputed knowledge would not be material to this controversy for the reasons which I

will later explain. Therefore I find that there is no issue of any material fact for trial in this case. That is, I should perhaps qualify that by saying there is no genuine issue. The facts are clearly not in dispute so far as they are material to this motion.

We then come to the question of whether or not under the undisputed facts the Bank is entitled to judgment as a matter of law. The plaintiff has not sought summary judgment but obviously he is not entitled to judgment under these facts, either under his first cause of action or upon the second, which is contingent upon the first, because for the plaintiff to recover the amount of money held in the Bank would be an unjust enrichment of the worst sort and is not justifiable either in law or equity or justice or common sense.

I also believe that the Bank is not entitled to summary judgment for the sum of \$15,000.00 paid to Gillis to satisfy the note, for several reasons. First, the Bank is not damaged thereby. The Bank now holds the note of the North Star which includes this indebtedness which they paid on behalf of the North Star, and holds ample security for such note. Second, seeking to recover the amount voluntarily paid to Gillis without recovering the note would probably be an inconsistent position and the doctrine of estoppel would likely apply. Now it is suggested that the Bank as the present holder in due course of the note by reason of the final redemption to Wallace from the Marshal's sale might still recover against the North Star. I do not think that is true as a matter of law, for the reason that there has been a com-

plete accord and satisfaction between the Bank and the North Star for the indebtedness represented by the note, which is the same debt, except a new note; and for the further reason that the North Star is not a party to this action.

On the other hand I believe it is equally clear that the Bank is entitled to recover the sum of \$11,-225.00, which it is holding in a suspense account by reason of the payment which the Bank was undoubtedly required to make for its security to the judgment creditor, Wallace, who certainly was a holder in due course of the note, by reason of which the Bank's situation with respect to the indebtedness owing to it by the North Star was indeed endangered, for instead of a first lien the Bank then found its position was subordinate to that of Wallace.

The plaintiff seems to rely wholly or almost wholly upon the assignment which he gave to the Bank for repayment to the Bank of advances on his contract, claiming that the Bank could not withhold more than was contemplated by the assignment. I do not think that is true as a matter of law, for surely the Bank has a lien upon moneys in its possession belonging to the depositor or for any indebtedness owing to the Bank. I believe that the Bank is entitled to such money either upon the principle of restitution as set forth in defendant's counterclaim and brief, or upon the theory of subrogation to the rights of Wallace as judgment creditor, or both. As a matter of fact, subrogation is in a sense a method of restitution. I find that in

law and in equity the Bank is entitled to that money, and it certainly would be most unjust that Gillis should recover it and thus enrich himself by receipt of money for payment of a note which has already been paid to him as a matter of fact, which has, in a sense, been paid twice, because not only did he get the money for the note but he also through this action of the Bank secured payment of a judgment against him.

The only possible theory advanced by the briefs upon which the Bank would be denied such remedy is not actually suggested by counsel, but I presume it would be an estoppel by reason of the negligence which they claim of the Bank in making payment of the note to Gillis without getting the note. Again it is not suggested as to why such negligence, if there was negligence, would be a defense, but I can conceive that it would be only on that theory. Examining the text of estoppel in 19 Am. Jur. reference is made to the fundamental principle of equitable estoppel which is that a party will not be permitted to occupy inconsistent positions or take a position in regard to a matter which is directly contrary to or inconsistent with one previously assumed by him or it. I can find no such inconsistency in the claim of the Bank to recover the \$11,225.00 which they were forced to pay in order to protect their interest, to the judgment creditor. I also find by the same text, Sec. 66, that mere carelessness or neglect of what would be prudent in respect of the interest of the party claimed to be estopped is not sufficient to estop him from claiming such remedy.

Therefore I cannot find that the Bank by reason of any negligence in failing to obtain possession of the note is estopped from asserting the present remedy.

I find, therefore, from the pleadings, the depositions, the affidavits, and the briefs on file, that the defendant Bank is entitled to recover judgment upon its counterclaim against the plaintiff Gillis in the sum of \$11,225.00, together with interest thereon at 6% from July 18, 1957, which is the date of their payment of this sum to Wallace, and that the Bank may apply against such judgment the sum of \$11,225.00 which it is holding in a suspense account—I think represented by a cashier's check.

The Bank is also entitled to recover its costs, including the cost of necessary depositions, and an attorney's fee which should be computed according to Rule 25, which I find will amount to \$724.50. Judgment may be presented accordingly in favor of the defendant on its counterclaim. As I recall, no findings of fact or conclusions of law will be necessary. That is true under the provisions of Rule 52 of the Rules of Civil Procedure. I think that covers it. Did I miss anything, counsel?

Mr. Von Der Heydt: I do not believe so, your Honor.

(There were no further proceedings in this matter and court remained in session for other business.)

This will certify that I, Mary C. Diede, in my official capacity as Court Reporter, United States

District Court, Second Division, Alaska, did report the oral proceedings in open court in cause No. 4180 on June 13, 1958, at Nome, Alaska;

That I reported such proceedings in stenograph machine shorthand and that the foregoing pages numbered 1 to 8, inclusive, contain a full, true and accurate transcript of the proceedings, prepared by me from my original notes to the best of my knowledge and ability.

Dated at Nome, Alaska, this 18th day of June. 1958.

/s/ MARY C. DIEDE.

[Endorsed]: Filed June 18, 1958.

In the District Court for the District of Alaska,
Second Judicial Division

No. 4180 Civil

WILL M. GILLIS,

Plaintiff,

vs.

MINERS AND MERCHANTS BANK OF
ALASKA,

Defendant.

SUMMARY JUDGMENT

This Matter having come on for hearing before the Court at Nome, Alaska, on the 13th day of June,

1958, on defendant's motion for Summary Judgment under Rule 56 FRCP, and the Court thereupon having rendered its decision upon said motion,

And, it appearing to the Court that the pleadings, depositions, admissions and affidavits on file herein show that there is no genuine issue as to any material fact; that all relief sought by the plaintiff in this action should be denied, and that defendant is entitled to judgment as a matter of law upon counterclaim against plaintiff,

Now, Therefore, it is hereby Ordered, Adjudged, and Decreed,

1. Defendant's motion for Summary Judgment is granted, and defendant shall have and recover from plaintiff upon its Second counterclaim, the sum of \$11,225.00, plus interest at the rate of 6% per annum from July 18, 1957, until paid, together with defendant's costs incurred herein to be taxed by the Clerk of this Court, which costs shall include the sum of \$724.50 as an attorney fee for defendant to be endorsed hereon by the clerk.

2. The defendant may apply in partial satisfaction of this judgment monies of plaintiff in the amount of \$11,225.00, which defendant has in its possession.

3. All relief sought by plaintiff be and it hereby is denied, and plaintiff shall have and recover nothing by this action, and plaintiff's cause of action is dismissed.

Done at Nome, Alaska, this 30th day of June, 1958.

/s/ WALTER H. HODGE,
District Judge.

\$86.50 costs.

/s/ J. M. KROMINGER,
Clerk.

Lodged: June 23, 1958.

[Endorsed]: Filed June 30, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that Will M. Gillis, plaintiff above named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the summary judgment entered in this action on June 30, 1958.

Dated: July 17, 1958.

/s/ FRED D. CRANE,
Attorney for Appellant.

[Endorsed]: Filed July 17, 1958.

In the District Court for the District of Alaska,
Second Judicial Division

No. 4180

WILL M. GILLIS,

Plaintiff,

vs.

MINERS & MERCHANTS BANK,

Defendant.

TRANSCRIPT OF PROCEEDINGS

Before: Honorable Walter H. Hodge,
District Judge.

Appearances:

TAYLOR & TAYLOR,

Fairbanks, Alaska, and

FRED D. CRANE,

Nome, Alaska,

For Plaintiff.

JAMES A. VON DER HEYDT,

Nome, Alaska,

For Defendant.

February 28; June 12; June 13, 1958

Be It Remembered that at approximately 10:15 a.m., February 28, 1958, court having convened previously for other business, the motion of the defendant to dismiss in cause No. 4180 came on regularly to be heard. The plaintiff was represented by

Fred D. Crane and the defendant was represented by Mr. James A. von der Heydt, the Honorable Walter H. Hodge presiding.

The Court: Gillis vs. Miners & Merchants Bank, No. 4180, the motion of the defendant to dismiss. I presume counsel would like to be heard.

Mr. Crane: Yes, your Honor.

The Court: Very well. Suppose I take care of these contested matters first, and we will take this motion up.

(The Court then heard proceedings with reference to other matters.)

The Court: Now then, we will take up the motion in the case of Gillis vs. Miners & Merchants Bank. I have read the briefs submitted by the parties, and the pleadings, and have examined the decisions available here that are cited by counsel in their briefs, although not too thoroughly as yet, together with some other authorities which I have looked into. But I would like to hear from counsel in support of his motion if there is anything further that he would like to add to the brief, or that which may be urged, particularly with respect to the motion on both counts.

(Arguments of counsel were not reported.)

The Court: Gentlemen, it is true, of course, that under the Federal Rules of Civil Procedure evidentiary facts need not be pleaded. There is a distinction, as we had pointed out in a previous case in this court, between the former principle of plead-

ing a cause of action and the present rule of pleading a claim, and to the extent that the former rule applies, two of the cases cited by counsel for the defendant in their brief have no application here. That is the case of *Baltimore Steamship Company vs. Phillips*, 274 U.S. 316, and *Miller vs. National Bank*, 166 F. 2d 723, 727. The former was a decision of the Supreme Court long before adoption of the Federal Rules, and the latter is a decision under the New York Civil Practice Act and not the Federal Rules. However, the courts have not gone so far as to hold that you need not plead facts sufficient to constitute a claim, and I rather think that the Rule as stated by the Circuit Court for the Ninth Circuit in the case of *Patten vs. Dennis* (134 F. 2d 137, CCA 9, 1943) is about as clear as we have in this jurisdiction on that point. That is, that there still must be pleaded a statement of sufficient facts showing a right in the claim and the violation of that right.

In this respect I find that the claim is faulty. It does not, as claimed by plaintiff in his supplemental brief, show either by the claim itself or the assignment pleaded as an exhibit that there was an agreement to promptly account and remit to plaintiff an excess over the advances by the Bank. It does not, as also claimed by the plaintiff, contain any allegation or claim that the money was misappropriated by the Bank under some pretense of creating an expense account. The complaint merely states that there was an assignment to the Bank, which is an exhibit, and that the Bank collected certain moneys

on this assignment and wrongfully misappropriated the balance. But the assignment being pleaded as an exhibit is a part of the complaint, and when we read the assignment we find that it is an assignment of all amounts then due or owing or which may thereafter become due and owing by the City of Nome to the plaintiff, and we further find that the assignment is expressly made to secure and provide for the payment of any and all obligations now due and owing or which may be hereafter due and owing by the assignor or the plaintiff to the Bank. There is no allegation whatever in the complaint that all obligations secured by the assignment, obligations of the plaintiff, were in fact paid, and unless there is such a claim surely the complaint does not state a claim.

There is another rule, of course, that the claim must show sufficient facts to enable the defendant to plead to it, that is, sufficient to advise the other party in order that he may plead. Legal conclusions of law are not enough, and I find that the complaint is obviously faulty in that it does not claim any breach of conditions of the assignment which is pleaded, and that unless a claim is made that all indebtedness secured by the assignment was paid, there is no claim for either moneys received, or debt, or conversion. Conversion is apparently what is intended.

Therefore I find that the first cause of action fails to state a claim. If it be a fact that all indebtedness was paid by the Bank and that there was an agreement that the Bank should remit the excess collected by it promptly to the plaintiff, then such should be pleaded. We cannot guess at it as the Court here is requested to do.

As to the second count, it is not clear from the complaint whether the damages claimed are for loss of profits or whether for expense or penalty or what. And I think that is hardly sufficient to enable the defendant to plead to it. But there is a greater fault. It is claimed by the defendant that damages for loss of profits will not lie in an action on a contract as not contemplated by the parties. There is generally such a rule, but it is also true that damages may be recovered in a proper case in an action for conversion. Whether or not this claim is actually for conversion or whether for money had or received it is difficult to determine. It is also claimed that damages must not be remote and speculative, but that is more a matter of proof than a matter of pleading.

The difficulty, as I find it, as to Count No. 2, is that unless a cause of action is pleaded in Count No. 1 for conversion, there is no claim under Count No. 2, which incorporates Count 1 in Count 2. Therefore, because the first claim incorporated in the second does not plead clearly a claim in conversion of specific money or property, a claim for damages for such conversion must also fail.

Now in this connection I am not convinced that the party seeking recovery for trover or conversion need recover the specific property in the sense that defendant here claims, that is, that it has to be the same check or money order or draft. I do not think that decision intends to go that far. But there must be a claim for specific property in the sense of money had and received by the Bank, as here, for a

specific purpose. So in the absence of a sufficient claim in conversion—for conversion—there is no sufficient claim for damages, because obviously if this be merely a claim for debt then damages for loss of profits would not be permissible at all. So again the claim under Count 2 must depend upon proper allegations of the complaint for conversion in Count 1.

Therefore, I find that the motion to dismiss must be granted for want of the complaint to state a claim. However, the plaintiff may have leave to amend, if the claim can be properly pleaded. How much time would you like?

Mr. Crane: I would like at least 20 days, your Honor, because I am going to be away from Nome for seven days, going out of here tomorrow, and then I will have to go to Fairbanks on the 14th to try a case on the 17th.

The Court: Very well. Any objections to 20 days, counsel?

Mr. Von Der Heydt: No, your Honor. That is quite all right.

The Court: A minute order may be entered granting the motion of the defendant to dismiss as to both causes of action, with 20 days' leave to the plaintiff to amend.

(There were no further proceedings in this matter at this time.)

(On June 6, 1958, a minute order was entered continuing the hearing of defendant's motion for summary judgment until June 12, 1958.)

Be It Remembered That 1:30 p.m., Thursday, June 12, 1958, in open court the following proceedings took place with reference to cause No. 4180. Mr. James A. von der Heydt was present for the defendant; counsel for plaintiff was unable to be present; the Honorable Walter H. Hodge presiding.

The Court: We were to take up at this time the case of Gillis vs. Miners and Merchants Bank, No. 4180. I have by telephone conversed with a Mrs. Jackson at Fairbanks, a law clerk in Mr. Taylor's office and agreed to extend until tomorrow the time for filing briefs on behalf of the plaintiff in this case. I see by the file that it has not yet been filed. The difficulty stems in part from Mr. Crane's illness, but she seemed to be of the opinion that all matters had been postponed in which he was interested and I informed her to the contrary. So if there is no objection——

Mr. Von Der Heydt: Do you wish to set it over then? Until 1:30 tomorrow?

The Court: Yes, 1:30 tomorrow.

(There were no further proceedings in the matter at this time.)

Be It Remembered that at 2:00 p.m. Friday, June 13, 1958, the above-entitled matter came on to be heard with respect to the defendant's motion for summary judgment. Mr. von der Heydt was present in court for the defendant; counsel for plaintiff did not appear. The Honorable Walter H. Hodge presided.

The Court: This is the time set for the hearing

as twice continued at the request of the plaintiff, of the motion of the defendant for summary judgment in the case of Will P. Gillis vs. The Miners and Merchants Bank of Alaska, No. 4180. It appears that oral argument on the motion will not be necessary or required by the Court, pursuant to the provisions of Rule 5 (c) of our Amended Uniform Rules. The record may show counsel for the defendant present. One of the joint counsel for the plaintiff is confined in the hospital, but we have been in touch with him several times concerning this matter and he informed me just this morning that he would not request oral argument on the matter and agreed that the matter be submitted upon the pleadings, the depositions, the affidavits and the briefs on file, and I understand from counsel for the defendant Bank that he is likewise agreeable.

Mr. Von Der Heydt: Yes, your Honor. I would like only to state that I have had no opportunity to read Mr. Crane's affidavit or Mr. Parrish's affidavit which the Court Reporter just handed me as you came in the room, but I presume——

The Court: I think we can dispose of those also, without the necessity of hearing from you concerning them.

It will be noted that plaintiff's trial brief in opposition to defendant's motion was received just today, which may be filed, from the office of Taylor and Taylor at Fairbanks, together with an exhibit and together with the affidavits of Fred D. Crane and of Robert A. Parrish, which may be filed. This despite the fact that this motion has been set for

hearing since May 6, or more than a month, and that defendant's brief has been on file since May 17, and the depositions in support of the motion have been on file since April 11. Ample opportunity has then been afforded the plaintiff to oppose the motion.

I have gone into the matter very thoroughly and am prepared to announce decision upon it at this time. The situation is rather complex, but yet in the final analysis, I find that the issues are quite simple. In the first place two things are essential to be shown in order that the court may grant the relief requested by the defendant on its counterclaim, pursuant to Rule 56 of the Federal Rules of Civil Procedure. The first, of course, is that the pleadings, depositions, affidavits and admissions on file show that there is no genuine issue as to any material fact, and the second is that it must be shown that the moving party is entitled to judgment as a matter of law.

Taking up first the matter of whether or not there is any genuine issue, I refer first to the pleadings. All of the material allegations of the defendant's counterclaim are admitted by the reply of the plaintiff, except as to certain facts which are denied either generally or on information and belief. Most significant to me is the admission in the reply of the allegation of the Bank that at the time plaintiff received from the defendant the sum of \$15,000.00 in full payment of the promissory note held by him of which the North Star Partners were the makers, the plaintiff knew that the note was not in his

possession but had been attached by the United States Marshal. That admission to me is most controlling here. The plaintiff does deny that he intentionally withheld and kept such fact from the knowledge of the defendant and the North Star for the purpose of obtaining payment of \$15,000.00. But I do not believe that such intention, if that be true, is material here. The fact is that he accepted payment of the note which he did not then have in his possession or control.

As to the other denials, it has been held by this Court upon authority of other decisions, that mere denials are not sufficient to prevent the entry of a summary judgment, and that is especially true where the depositions and affidavits reveal no dispute of any material fact, and I am referring to the decision in the case of *Weston vs. Noble*, reported in *Federal Rules Decisions* at page 416, in a case I had at Fairbanks, and the case of *Engl vs. Aetna Life Insurance Co.*, 139 F. 2d 469, together with other authorities referred to in defendant's supplemental brief.

Turning then to the depositions and affidavits, upon very careful analysis I find only one supposed issue of fact controverted, and that is the allegation of the plaintiff that the defendant Bank knew of the attachment of the note and interest of the North Star under the mortgage securing the note at the time they made payment of it to Gillis. The depositions of Mr. James G. Manning of the Bank, and of Ernest Gustafson of the North Star partnership, deny that. In response to such allegation, the plaintiff has filed an affidavit of Robert A. Parrish who

was the attorney for Joseph Wallace in the suit against Gillis in which the note was attached, and by this affidavit he recites a conversation with Mr. Manning of the Bank on the 18th of February, 1957, regarding the sale by the Marshal of this note, which was subsequent to the attachment but prior to the sale. It is significant that this conversation was after the payment by the Bank to Gillis, which was on January 30. Therefore, this affidavit does not controvert the allegation of the Bank that they had no such knowledge. The affidavit of Mr. Crane states broadly that the defendant bought Gillis' equity well knowing that the note, mortgage and assets of Will M. Gillis were under attachment. That is not supported by any definite statement of fact. I also find that even if it were true that the Bank knew or should have known of such attachment, such knowledge or imputed would not be material to this controversy for the reasons which I will later explain. Therefore I find that there is no issue of any material fact for trial in this case. That is, I should perhaps qualify that by saying there is no genuine issue. The facts are clearly not in dispute so far as they are material to this motion.

We then come to the question of whether or not under the undisputed facts the Bank is entitled to judgment as a matter of law. The plaintiff has not sought summary judgment but obviously he is not entitled to judgment under these facts, either under his first cause of action or upon the second, which is contingent upon the first, because for the plaintiff to recover the amount of money held in

the Bank would be an unjust enrichment of the worst sort and is not justifiable either in law or equity or justice or common sense.

I also believe that the Bank is not entitled to summary judgment for the sum of \$15,000.00 paid to Gillis to satisfy the note, for several reasons. First, the Bank is not damaged thereby. The Bank now holds the note of the North Star which includes this indebtedness which they paid on behalf of the North Star, and holds ample security for such note. Second, seeking to recover the amount voluntarily paid to Gillis without recovering the note would probably be an inconsistent position and the doctrine of estoppel would likely apply. Now it is suggested that the Bank as the present holder in due course of the note by reason of the final redemption to Wallace from the Marshal's sale might still recover against the North Star. I do not think that is true as a matter of law, for the reason that there has been a complete accord and satisfaction between the Bank and the North Star for the indebtedness represented by the note, which is the same debt, except a new note; and for the further reason that the North Star is not a party to this action.

On the other hand I believe it is equally clear that the Bank is entitled to recover the sum of \$11,225.00, which it is holding in a suspense account by reason of the payment which the Bank was undoubtedly required to make for its security to the judgment creditor, Wallace, who certainly was a holder in due course of the note, by reason of which the Bank's situation with respect to the indebtedness

owing to it by the North Star was indeed endangered, for instead of a first lien the Bank then found its position was subordinate to that of Wallace.

The plaintiff seems to rely wholly or almost wholly upon the assignment which he gave to the Bank for repayment to the Bank of advances on his contract, claiming that the Bank could not withhold more than was contemplated by the assignment. I do not think that is true as a matter of law, for surely the Bank has a lien upon moneys in its possession belonging to the depositor or for any indebtedness owing to the Bank. I believe that the Bank is entitled to such money either upon the principle of resitution as set forth in defendant's counterclaim and brief, or upon the theory of subrogation to the rights of Wallace as judgment creditor, or both. As a matter of fact, subrogation is in a sense a method of resitution. I find that in law and in equity the Bank is entitled to that money, and it certainly would be most unjust that Gillis should recover it and thus enrich himself by receipt of money for payment of a note which has already been paid to him as a matter of fact, which has, in a sense, been paid twice, because not only did he get the money for the note but he also through this action of the Bank secured payment of a judgment against him.

The only possible theory advanced by the briefs upon which the Bank would be denied such remedy is not actually suggested by counsel, but I presume it would be an estoppel by reason of the negligence

which they claim of the Bank in making payment of the note to Gillis without getting the note. Again it is not suggested as to why such negligence, if there was negligence, would be a defense, but I can conceive that it would be only on that theory. Examining the text of estoppel in 19 Am. Jur. reference is made to the fundamental principle of equitable estoppel which is that a party will not be permitted to occupy inconsistent positions or take a position in regard to a matter which is directly contrary to or inconsistent with one previously assumed by him or it. I can find no such inconsistency in the claim of the Bank to recover the \$11,225.00 which they were forced to pay in order to protect their interest, to the judgment creditor. I also find by the same text, Sec. 66, that mere carelessness or neglect of what would be prudent in respect of the interest of the party claimed to be estopped is not sufficient to estop him from claiming such remedy. Therefore I cannot find that the Bank by reason of any negligence in failing to obtain possession of the note is estopped from asserting the present remedy.

I find therefore, from the pleadings, the depositions, the affidavits, and the briefs on file, that the defendant Bank is entitled to recover judgment upon its counterclaim against the plaintiff Gillis in the sum of \$11,225.00, together with interest thereon at 6% from July 18, 1957, which is the date of their payment of this sum to Wallace, and that the Bank may apply against such judgment the sum of \$11,225.00 which it is holding in a suspense account—I think represented by a cashier's check.

The Bank is also entitled to recover its costs, including the cost of necessary depositions, and an attorney's fee which should be computed according to Rule 25, which I find will amount to \$724.50. Judgment may be presented accordingly in favor of the defendant on its counterclaim. As I recall, no findings of fact or conclusions of law will be necessary. That is true under the provisions of Rule 52 of the Rules of Civil Procedure. I think that covers it. Did I miss anything, counsel?

Mr. Von Der Heydt: I do not believe so, your Honor.

(There were no further proceedings in this matter and court remained in session for other business.)

REPORTER'S CERTIFICATE

This will certify that I, Mary C. Diede, in my official capacity as Court Reporter, Second Judicial Division, District of Alaska, did report the oral proceedings in open court in cause No. 4180, Gillis vs. Miners and Merchants Bank, at Nome, Alaska, on February 28, June 12 and June 13, 1958, with the exception of certain argument of counsel which was not reported;

That I reported such proceedings in stenograph machine shorthand and that the foregoing pages numbered 1 to 13, inclusive, contain a full, true and correct transcript of the proceedings in such cause, with the exception of argument as noted therein, prepared by me from my original notes to the best of my knowledge and ability.

Dated at Nome, Alaska, this 21st day of August, 1958.

/s/ MARY C. DIEDE.

[Endorsed]: Filed August 22, 1958.

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

United States of America,
Territory of Alaska,
Second Division—ss.

I, J. M. Kroninger, Clerk of the United States District Court, Territory of Alaska, Second Division, do hereby certify that the foregoing documents requested in the Designation on Appeal by Fred D. Crane, Attorney for Appellant, the original Complaint, Motion to Dismiss, Amended Complaint, Answer, Reply, Motion for Summary Judgment, Affidavits in Support Thereof and Counter Affidavits, Filed Copy of Transcript of Decision of Court on Motion for Summary Judgment, Summary Judgment, Notice of Appeal Filed July, 17, 1958, and Designation of Record on Appeal in the case of Will M. Gillis, Plaintiff vs. Miners and Merchants Bank, Defendant, No. 4180 Civil this Court.

In Witness Whereof, I have hereunto set my hand and affixed the seal of this Court this 18th day of August, A.D. 1958.

[Seal] /s/ J. M. KRONINGER,
Clerk of Court.

[Title of District Court and Cause.]

CERTIFICATE OF CLERK

United States of America,
Territory of Alaska,
Second Division—ss.

I, J. M. Kroninger, Clerk of the United States District Court for the District of Alaska, Second Division, do hereby certify that foregoing contains the following original papers requested in the Counter-designation of Contents of Record on Appeal, filed by counsel for the appellee:

1. Deposition of James G. Manning with Exhibits 1 to 11, inc.
2. Deposition of Ernest H. Gustafson with Exhibits 1 to 7, inc.
3. Reporter's transcript of proceedings, Feb. 28, June 12 and 13, 1958.
4. Counter-designation of Contents of Record on Appeal.

The following papers requested in the counter-designation of contents of record on appeal are not included as they were previously forwarded to the Ninth Circuit Court of Appeals on August 18, 1958: Affidavit of James A. Von Der Heydt, Notice of Appeal, Filed July 17, 1958, Designation of Record on Appeal.

In Witness Whereof, I have hereunto set my hand and affixed the seal of this Court this 23rd day of August, A. D. 1958.

[Seal] /s/ J. M. KRONINGER,
Clerk.

[Endorsed]: No. 16147. United States Court of Appeals for the Ninth Circuit. Will M. Gillis, Appellant, vs. Miners and Merchants Bank of Alaska, a Corporation, Appellee. Transcript of Record. Appeal From the District Court for the District of Alaska, Third Division.

Filed: August 25, 1958.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the
Ninth Circuit.

In the United States Court of Appeals
for the Ninth Circuit

No. 16147

WILL M. GILLIS,

Appellant,

vs.

MINERS AND MERCHANTS BANK OF
ALASKA,

Appellee.

STATEMENT OF POINTS RELIED UPON
ON APPEAL

Pursuant to Rule 17 (6) of the Rules of the U. S. Court of Appeals, Ninth Circuit, Appellant states the point upon which he will rely upon appeal as follows:

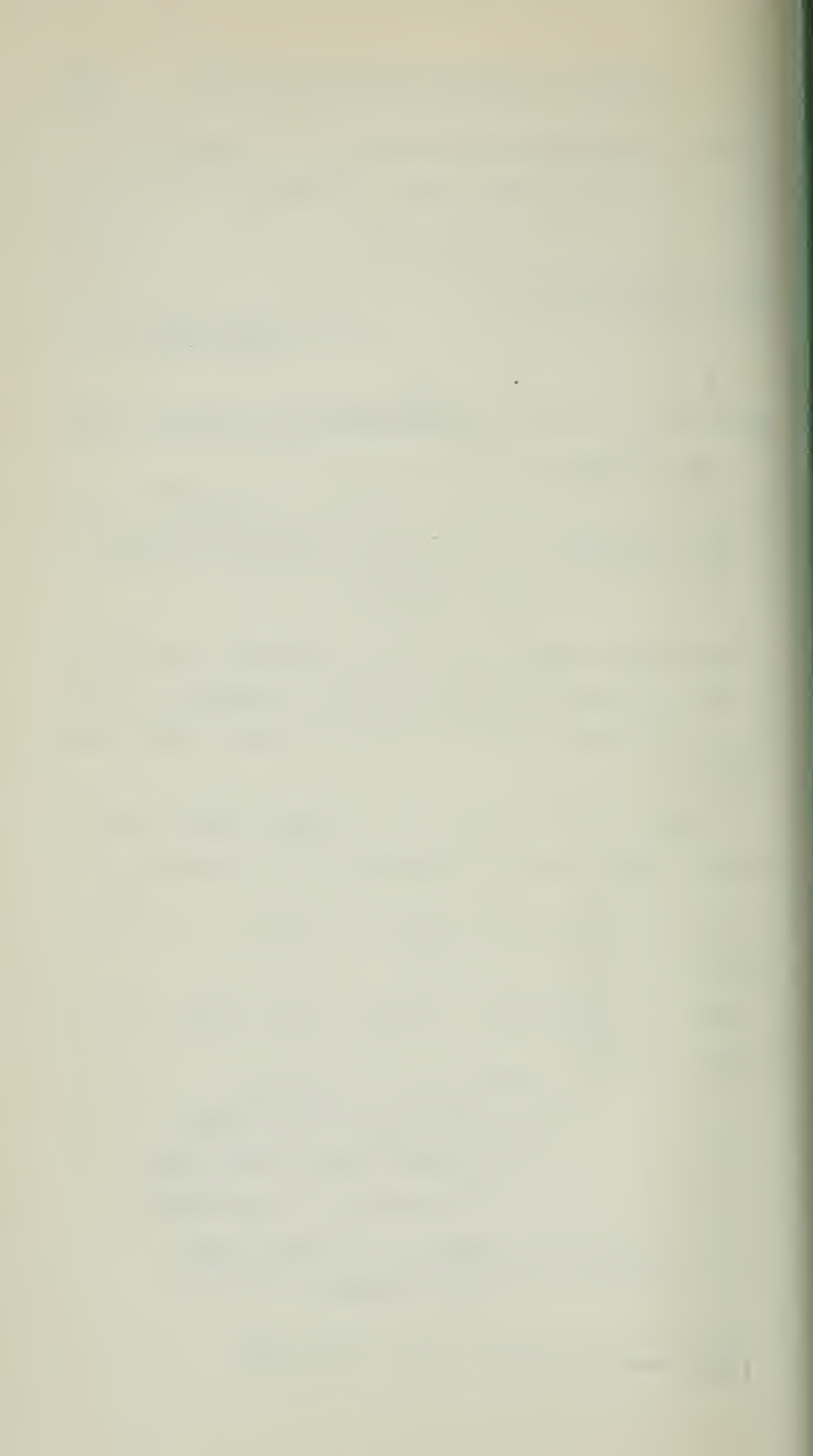
1. The Court erred in granting Defendant's motion for summary judgment in the said cause.
2. That the said summary judgment was not based upon facts or the law.

Dated at Fairbanks, Alaska, this 22nd day of October, 1958.

FRED D. CRANE,
WARREN A. TAYLOR &
WARREN WM. TAYLOR,
Attorneys for Appellant;

By /s/ WARREN A. TAYLOR,
Of Counsel.

[Endorsed]: Filed October 24, 1958.



No. 16,147

IN THE
United States Court of Appeals
For the Ninth Circuit

WILL M. GILLIS,

Appellant,

vs.

MINERS AND MERCHANTS BANK OF ALASKA,
a Corporation,

Appellee.

APPELLANT'S BRIEF

TAYLOR & TAYLOR,

P. O. Box 200, Fairbanks, Alaska,

FRED D. CRANE,

Kotzebue, Alaska,

Attorneys for Appellant.

FILED

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PAUL P. O'BRIEN, CLERK

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No. 16,147

IN THE

**United States Court of Appeals
For the Ninth Circuit**

WILL M. GILLIS,

Appellant,

vs.

MINERS AND MERCHANTS BANK OF ALASKA,
a Corporation,

Appellee.

JURISDICTIONAL QUESTION.

The matter of jurisdiction of the Court below is not in any manner challenged since the judgment was rendered prior to any question of the jurisdictional standing of the Court being challenged.

STATEMENT OF FACTS.

This is an Appeal from a Judgment rendered by the Court below (without a trial) summarily dismissing the Appellant's Complaint and granting Judgment in favor of the Appellee upon its Counter-claims. The Judgment further providing that the sum of \$11,225.00 shall be applied by the Appellee in

partial satisfaction of such Judgment from monies of the Appellant withheld by and in possession of the Appellee. (T.R. p. 123.)

The Judgment was secured by the Appellee based upon affidavits and depositions taken of Appellee's witnesses. (T.R. pp. 48, 85.)

The action was instituted by the Appellant and based upon a claim that the Appellant executed an assignment of a building contract in favor of the Appellee for certain monies which was to become due Appellant from the City of Nome, Alaska. The assignment was delivered upon the sole condition and understanding that after the Appellee has reimbursed itself for certain specific advances against such an assignment, the excess over and above such advances made by Appellee were to be promptly remitted to the Appellant. (T.R. p. 6.)

This clear understanding between the parties was had prior to the execution and delivery of such assignment and as a result of a mutual assent between them.

Appellant's claim was further based by way of a second cause of action upon the fact that by virtue of Appellee's conduct in violating the terms of the contract and failing to pay the Appellant the excess over and above the advances made against the assignment, the Appellant was deprived of operating capital in his contracting business and suffered substantial damages. (T.R. p. 9.)

The Appellee, in answer to such claims, made certain denials and counter-claims alleging that certain

monies in a prior collateral and unconnected transaction were paid to the Appellant as a result of a mistake. The Appellee thus asserted the right to hold the Appellant's monies against such claimed indebtedness. (T.R. p. 18.)

ARGUMENT.

I.

AN ISSUE OF FACT WAS RAISED PRECLUDING SUMMARY JUDGMENT.

Appellant contends (a) that the assignment was delivered on the sole understanding that the excess over and above the advances against such an assignment were to be delivered to the Appellant without being affected by any other transactions between the parties.

(b) That the Appellant was deprived of his day in court and an opportunity to submit proof in support of such issue of fact before the Court to determine whether such was the true understanding between the parties.

(c) That the Appellant was entitled to have his claim determined upon valid presentation of the facts whether he was damaged because of the conduct of Appellee in appropriating monies in fact due to the Appellant.

Motion for summary judgment can only be granted when there is a complete absence of any triable issue and the Court must indulge in granting the benefit of every doubt to the Plaintiff so as not to deprive him of his day in court. It was so held in the case of *Weisser v. Mursam Shoe Corporation*, 127 Fed. 2d

344, by the Second Circuit and discussed at length in 145 ALR 467, page 474, reading:

“We do not of course decide here that Mursam was in fact a dummy. We hold only that triable issues were created by the plaintiff’s allegations and the affidavits that Mursam was a tool of the other defendants, and that the lease was made because of representations believed by plaintiff that its liabilities were the obligations of the other defendants. The order granting summary judgment and dismissing the complaint is reversed and the case remanded.”

The case of *Wooten v. Marshall*, 153 Fed. Sup. 759, involving an action to decree a joint venture between the parties concerning realty and compelling an accounting, the plaintiff contending that there was an alleged oral agreement between the parties concerning such realty, was held to create triable issues as to whether there was a joint venture between the parties precluding the granting of an application for summary judgment. Page 764 reads:

“The question before this court on this motion is therefore a simple one. Are the facts admitted to be true by the defendant for purposes of the motion sufficient to create a triable issue as to whether there was a joint venture between parties as alleged in the complaint? If there was such a joint venture it is plain that the statute of frauds pleaded by the defendant do not apply and there is at the least a triable issue.”

In the case of *Town Show Case & Cabinet Co. v. Equitable Fire & Marine Insurance Co.*, 248 Fed.

2d 338, in an action by insured against insurers for recovery under fire policies, on affidavits and other evidence in support of plaintiff's motion for summary judgment where a question was raised of a possible substitution or cancellation, it was held that the raising of that issue precluded summary judgment. Page 343 reads:

"After studying this record and counsel's briefs, it is clear that the correctness of allowing summary judgment is a critical question. We think the trial court erred by disposing of the case under Rule 56, Federal Rules of Civil Procedure. It is our view of the evidence concerning substitution or cancellation of the relevant policies, that there was presented factual questions for a jury. *Homan Mfg. Co. v. Long*, 242 Fed. 2d, Ser. 645."

It is quite apparent and the Appellant's complaint clearly recites as cause one of the action that the assignment was a separate and distinct transaction and was delivered to the Appellee under certain conditions; that Appellee has accepted such an assignment with the clear understanding that upon the performance and completion of the work called for under the school contract by the Appellant, and the Appellee being reimbursed for the specific advances made against such an assignment, any monies over and above the Appellee's advances were to be remitted to the Appellant. This arrangement had been made by the parties after the alleged mortgage-note transaction claimed by the Appellee as a basis and alleged justification of withholding Appellant's monies. These

various transactions, in absence of testimony clarifying the respective rights of the parties, could not have been summarily disposed of by the Court below.

In the case of *Real Estate, Land, Title and Trust Co. v. Commonwealth Bond Corp.*, 63 Fed. 2d p. 237, involving the question of an accord and satisfaction where motion had been made for summary judgment, the Court stated as follows on page 39:

“If an agreement was made in March 1930, as more particularly sworn to by the president of appellant, a question of fact may be presented as to whether or not, by agreements of parties, an accord and satisfaction was reached which would relieve the surety. The court may not strike out of the answer such an issue or decide the question of credibility without hearing evidence. The affidavit setting forth this defense cannot be disregarded. *Federal & Deposit Co. v. U.S.*, 187 U.S. 315; *Chamberlain v. Penn. R.R.*, 59 Fed. 2d, 986; *Gee Investment Co. v. I.R.T.*, 235 N.Y. 133, 139, 139 NE 216.”

II.

APPELLEE, IN ITS CAPACITY AS A BANK, HAS UNDERTAKEN TO REMIT THE PROCEEDS OF THE ASSIGNMENT OVER AND ABOVE THE ADVANCES MADE AGAINST SUCH, TO THE APPELLANT AND IS DUTY BOUND BY SUCH OBLIGATION.

In the case of *Russell v. The Bank of Nampa*, 169 Pac. 180, where a party was indebted to a bank, left with such bank as security, notes belonging to him

and authorizing the bank to collect upon them and apply a portion of the proceeds to the payment of his debt and instructing the bank not to deposit the balance, but to deliver such excess to a third person, and the bank, contrary to such instructions, deposited such monies in the bank, the balance was held to be not a general, but a "special" deposit. Page 181 reads:

"The evidence established as a fact appellant's contention that such balance was to be paid over by the bank to him and that it was not to be deposited. Such balance then became a trust fund and not an asset of the bank. The relation of bailor and bailee was established between appellant and the bank and not the relationship of depositor and banker. *Hall v. Beymer*, 125 Pac. 561; *Capital Nat. Bank v. Coldwater Nat. Bank*, 49 Nebr. 786, 69 NW 115; in re *Johnson* 103 Mich. 109, 61 NW 352."

In the case of *Angleman v. Bank of America National Trust & Savings Association*, 219 Pac. 2d 868, the Court has held that where deposits in a bank are arranged for a special purpose, such as for the purpose of paying funds to a third person, such as paying bonds, mortgage indebtedness, meeting certain classes of checks, or paying a contractor for work being performed, have all the attributes of "special" deposits and are generally construed as such. Page 870 reads:

"The question presented for determination is whether appellant bank was entitled to offset the monies owed by it to Pacific Jardena Bank against a debt owed to it by Pacific at Five

Points Branch. We are of the opinion that the bank was not entitled to such an offset. Appellant contends that it had the right of offset by reason of Section 440 of the Code of Civil Procedure, and that it also had that right because of its well recognized bankers lien. The right of offset exists in favor of a bank with which a customer makes general deposits, but we are of the opinion that in view of the intention of the parties, as disclosed by the terms of the contract and the practice followed by the bank in handling the account, the trial court properly concluded that the reserve account was not a general deposit, but one which was to be used for a specific purpose.

... A bank impliedly binds itself by accepting a special deposit not to set off against such a deposit a debt due it from the depositor. Nor can a bank which accepts a deposit of money for a special purpose, under an agreement that it will pay the amount when needed for that purpose, legally appropriate such a deposit to discharge the depositor's indebtedness to it. *Stone v. Harris* 80 Pac 711; *Morton v. Woolery* 48 ND 1132, 189 NW 232, 24 ALR 1111, 39 ALR 1138, in re *Warrens Bank* 209 Wis 121, 244 NW 594, 86 ALR 375 and numerous cases cited there."

The Appellant's contention is simple. An agreement has been made with the bank that a specific assignment, the subject matter of the suit, was to be treated in a certain manner by a special arrangement between the parties; that a violation of such an agreement occurred as a result of the bank's alleged claims against the fund.

A triable issue has been amply established and the Appellant by being deprived of the right to submit testimony and elicit additional proof as to the understanding of the parties, has been deprived of his due day in court. Such was never contemplated or intended by remedy of summary judgment.

Dated, April 7, 1959.

Respectfully submitted,

TAYLOR & TAYLOR,

FRED D. CRANE,

By FRED D. CRANE,

Attorneys for Appellant.

No. 16,147

IN THE

**United States Court of Appeals
For the Ninth Circuit**

WILL M. GILLIS,

Appellant,

VS.

MINERS AND MERCHANTS BANK OF ALASKA,
a Corporation,

Appellee.

Upon Appeal from the District Court
for Alaska, Second Division.

BRIEF FOR APPELLEE.

JAMES A. VON DER HEYDT,

P. O. Box 156, Nome, Alaska,

FAULKNER, BANFIELD & BOOCHEVER,

JOHN H. DIMOND,

P. O. Box 1121, Juneau, Alaska,

Attorneys for Appellee.

FILED

MAY 14 1959

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10 CJS, Bills and Notes, Sec. 467h, pp. 1011-1012	27
83 CJS, Subrogation, Sec. 14, p. 611	37
Moore's Federal Practice, Vol. 6, Sec. 56.11(3), pp. 2067-2073	19
Restatement of Restitution:	
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No. 16,147

IN THE

**United States Court of Appeals
For the Ninth Circuit**

WILL M. GILLIS,

Appellant,

vs.

MINERS AND MERCHANTS BANK OF ALASKA,
a Corporation,

Appellee.

Upon Appeal from the District Court
for Alaska, Second Division.

BRIEF FOR APPELLEE.

OPINION BELOW.

There was no formal opinion as such. However, the court below did render an oral decision from the bench, and a transcript of this is found at R. 113-122.

JURISDICTION.

This is an action brought by appellant for the recovery of money, alleged to have been converted to appellee's use, and for damages purportedly arising by reason of such conversion (R. 6-13). Appellee filed

its counterclaims against appellant alleging claims for money damages on the theory of restitution and unjust enrichment (R. 14-43). On June 30, 1958 summary judgment was entered in favor of appellee for the sum of \$11,225.00, plus interest and costs, denying all relief sought by appellant, and dismissing appellant's cause of action (R. 122-124). An appeal from this judgment was taken by appellant on July 17, 1958 by filing with the District Court notice of appeal (R. 124). The District Court had jurisdiction by reason of the provisions of the Act of June 6, 1900 (31 Stat. 322, as amended), 48 USCA Sec. 101. The jurisdiction of this court rests on the Act of June 25, 1948 (62 Stat. 929, as amended), 28 USCA Sec. 1291, and on the Act of July 7, 1958 (Public Law 85-508, 72 Stat. 348-349, Sections 12-14).

STATEMENT.

The bare "Statement of Facts" made in appellant's brief (pp. 1-3) does not really present a factual background sufficient to enable this court to decide the questions presented here. Moreover, the statement is not accurate; and appellee will point out in part 1 of its argument (*infra*, pp. 15-21) that the impression left by appellant's statement—that there was gross error and arbitrary conduct on the part of the District Court—is false.

The situation here is somewhat involved. But appellee believes that the following, more detailed state-

ment must be set forth as being essential to a proper determination of the case.

PRELIMINARY CONSIDERATIONS.

The appellant had certain monies due him from the City of Nome, and on March 21, 1957, he assigned all of such monies to the appellee.¹ The assignment was, in effect, a security device; appellee was to advance monies on behalf of appellant, and when the assigned funds were received from the City, appellee had the authority and means to reimburse itself.

Out of the total monies so received by appellee from the City, appellee reimbursed itself to the extent of such advances made, and then paid the balance over to appellant—with the exception of \$11,225.00. This money is presently being held in a “suspense account” of the appellee Bank, in the form of a cashier’s check payable to appellee and appearing to have been purchased by appellant: “to pay for advance by Bank on Wallace judgment, i.e., purchase of North Star note.”²

On November 30, 1957, appellant commenced this action to recover the \$11,225.00. In addition, he asserted in his complaint a claim for compensatory damages in the sum of \$25,000.00 (R. 3-5).

Appellee moved to dismiss the complaint for a failure to state a claim (R. 6), and on February 28, 1958 this court granted appellee’s motion (R. 125-130).

¹Manning deposition (R. 68, 78-80).

²Manning deposition (R. 69-71, 81-82).

However, appellant was given leave to amend, and an amended complaint was subsequently filed (R. 6-13).

Appellee then served and filed its answer to the amended complaint—asserting three separate counterclaims against appellant. The gist of these, so far as the \$11,225.00 is concerned, is that appellee is entitled to retain this money and use it as a set-off against a claim which appellee had against appellant.

The relevant and material facts which form the basis for appellee's counterclaims must be considered. In chronological order they are as follows:

1. **The North Star-Gillis Note and Mortgage.**

Robert H. Renshaw and Ernest H. Gustafson were and are co-partners, doing business under the name and style of "North Star Bakery." For purposes of convenience they will be hereafter referred to collectively as "North Star." Also, for purposes of convenience, appellant will be referred to as "Gillis", and appellee, as the "Bank."

There were certain business transactions between North Star and Gillis, and these culminated, on September 15, 1954, in the following:

(a) North Star executed and delivered to Gillis the former's promissory note in the principal sum of \$19,854.83, plus 8% interest. This note was payable in installments—the first being due on September 15, 1957. However, interest was payable monthly from the date of the note, i.e., on each month subsequent to September 15, 1954.³

³Gustafson deposition (R. 86-88, 27-28).

(b) At the same time, as security for this debt, North Star executed, acknowledged and delivered to Gillis a mortgage covering certain real and personal property owned by North Star. The real property consisted of Lot 7 of Block H of the Townsite of Nome, Alaska, and will hereafter be referred to generally as the "mortgaged property" or "North Star's property."

This mortgage was dated September 15, 1954 and was filed for record in the Recorder's office at Nome on or about March 30, 1955 as Instrument No. 89848.⁴

2. The Bank's First Mortgage.

The Gillis mortgage above referred to was made expressly subordinate to the lien of a first mortgage of the same property from North Star to the Bank (R. 88-89). This first mortgage was dated at the same time, i.e., September 15, 1954, secured a loan from the Bank to North Star in the amount of \$38,000.00, and was recorded on September 15, 1954 as Instrument No. 89669.⁵

3. Payment of North Star-Gillis Note; Release of Gillis Mortgage.

In the latter part of January, 1957, Gillis, the North Star partners and James G. Manning, executive vice-president of the Bank, met together in the Bank's offices. This meeting resulted, among other things, in the following:

(a) Gillis agreed in writing to sell to the Bank all of Gillis' right, title and interest in and to his sec-

⁴Gustafson deposition (R. 88-89).

⁵Manning deposition (R. 50-51).

ond mortgage from North Star, in consideration of the payment to Gillis of the sum of \$15,000.00. This payment was made and accepted by Gillis in full satisfaction of the North Star note to Gillis of \$19,854.83, plus interest.⁶

(b) The Bank paid Gillis the \$15,000.00 at this time, and Gillis delivered to the Bank his assignment of all of his right, title and interest in and to the mortgaged property.⁷ At the same time Gillis executed, acknowledged and delivered a satisfaction of his mortgage from North Star, and this was duly recorded as Instrument No. 90533 on or about January 31, 1957.⁸

4. Release of Bank's First Mortgage—Execution of New Mortgage to Bank.

The payment of the \$15,000.00 to Gillis constituted a new loan in that amount from the Bank to North Star which was added to the balance of the existing indebtedness of the latter to the Bank. Consequently, at the time the \$15,000.00 payment was made to Gillis, North Star gave to the Bank its promissory note in the sum of \$110,000.00. The Bank's first mortgage of September 15, 1954 was released and the release recorded (Instrument No. 90530—January 31, 1957); and North Star then gave to the Bank a new mortgage of the same property as security for the increased total indebtedness of \$110,000.00. This new mortgage from North Star to the Bank was dated January 22,

⁶Manning deposition (R. 53-54) ; Gustafson deposition (R. 90-91).

⁷Manning deposition (R. 56-57).

⁸Gustafson deposition (R. 91).

1957, and was recorded on January 25, 1957 as Instrument No. 90525 in Vol. 237 of Mortgages, at pp. 25-30.⁹

At this point an important fact should be noted: If Gillis had not previously recorded a satisfaction of his second mortgage on North Star's property, or if for some reason or other Gillis' satisfaction of mortgage which was recorded did not actually effect a release and satisfaction of the Gillis mortgage, then it is clear that the Bank's mortgage lien became junior to the mortgage lien of Gillis—because the Bank had released its prior first mortgage, and its second mortgage in the amount of \$110,000.00 was made after the Gillis mortgage of September 15, 1954.

5. The Wallace Action—Attachment and Judgment.

(a) The Attachment of the North Star-Gillis Note.

In the meantime Gillis had been sued on a cause of action not related to these transactions. The plaintiff in this action (Civil Action No. 4107) was Joseph Wallace, and he had a writ of attachment issued on May 5, 1956. On May 15, 1956, the U. S. Marshal levied the writ by attaching the North Star promissory note to Gillis (R. 18, 44). The Marshal at this time took possession of the note from Gillis, and at no time subsequent thereto did Gillis have possession of or control over that instrument.

Thus, at the time subsequent to these transactions that Gillis accepted from the Bank the \$15,000.00 in full payment and satisfaction of the indebtedness rep-

⁹Manning deposition (R. 57-60).

resented by the note, Gillis did not have the note in his possession and, moreover, had no right to its possession. And, more important, he knew of this situation and said nothing about it to the Bank or North Star—probably knowing all too well that if the facts had been disclosed, he would not have received the \$15,000.00.¹⁰

(b) Wallace's Judgment Against Gillis.

In the Wallace action a money judgment was entered against Gillis on April 25, 1957. Among other things, the judgment provided as follows:

“It Is Further Ordered, Adjudged and Decreed, that the U. S. Marshal at Nome, Alaska, sell, at public auction, that certain promissory note executed by Ernest H. Gustafson and Robert H. Renshaw, d/b/a North Star Bakery, in favor of defendant for the sum of Nineteen Thousand, Eight Hundred Fifty-Four and 83/100's (\$19,854.83) Dollars, now in the possession of the said Marshal and the same hereby is ordered sold in accordance with law, together with all of the interest of the said defendant in and to Lot Seven (7) of Block ‘H’ of the Townsite of Nome, Alaska, by reason of that certain real and chattel mortgage securing said debt, recorded in the office of the U. S. Commissioner of the Cape Nome Precinct, Second Division, Alaska, as Instrument No. 89,849, and that a good and sufficient title to the said instrument and property be executed and delivered by the said U. S. Marshal to the purchaser thereof.”
(R. 18-19, 44.)

¹⁰Manning deposition (R. 60-61); Gustafson deposition (R. 93).

Thus, the North Star note which Gillis had received \$15,000.00 for was now to be sold. In addition, Gillis' interest as mortgagee in the North Star property which Gillis had assigned to the Bank, and in respect to which a satisfaction of mortgage had been given by Gillis, was also to be sold. The Marshal was directed to sell this property, that is, the note and Gillis' interest or equity as mortgagee in the mortgaged property, and give to the purchaser at such sale a "good and sufficient title" to such property (R. 19, 44).

6. Marshal's Sale of North Star-Gillis Note and Gillis' Interest as Mortgagee in North Star Property.

It was no wonder, then, when execution was issued on the Wallace judgment and notice of sale given by the Marshal,¹¹ that North Star notified the Marshal that the note had been paid for and purchased by North Star some time previously when the \$15,000.00 had been paid to Gillis; and that North Star, therefore, had the right to possession of the note, and furthermore, that the mortgage from North Star to Gillis had been released and satisfied.¹²

However, North Star's third party claim was of no avail. The Marshal sold the property, as advertised, on or about June 29, 1957; and Wallace, the judgment creditor of Gillis, was the successful bidder at such sale for the sum of \$11,225.00. The Marshal delivered the note to Wallace and gave him an "Assignment and

¹¹(R. 19, 30-31, 44) ; Gustafson deposition (R. 94).

¹²(R. 34-35) ; Gustafson deposition (R. 94-95).

Bill of Sale" which certified that the Marshal had sold to Wallace the following:

(a) The promissory note from North Star to Gillis in the sum of \$19,854.83; and

(b) All of the interest of Gillis in and to Lot 7 of Block H, Townsite of Nome, Alaska, by reason of the mortgage of September 15, 1954 from North Star to Gillis.¹³

7. Redemption of Note and Interest in Mortgaged Property by Bank and North Star.

It is pointed out later in this brief that Wallace was a holder in due course of the note which he purchased at the Marshal's sale, and that any person to whom he might have transferred the note would have the same rights as such holder. The security for this note had been the September 1954 mortgage to Gillis of North Star's property which was now covered by a later mortgage given by North Star to the Bank. By the terms of the judgment in the Wallace action, and the ensuing sale by the Marshal on execution, Gillis' release and satisfaction of his mortgage was, for all practical purposes, declared to have been ineffective; for the judgment clearly stated that Gillis' interest in North Star's property as mortgagee thereof was something that still existed and could be levied upon. And, in fact, it was levied upon and sold by the Marshal to Wallace. The effect of this, then, was to "reactivate" the lien of the Gillis mortgage and

¹³(R. 21, 36-37, 45).

advance it to a position superior to the lien of the Bank's mortgage of January 31, 1957.

Thus, after the Marshal's sale, Wallace or any transferee of his was able to demand payment of a debt against North Star in excess of \$19,000.00, and at the same time was able to enforce payment by reason of being in the position of a first mortgagee of North Star's property.

The Bank was in a precarious position. Its debtor, North Star, owing the Bank about \$110,000.00, might easily have been pushed into insolvency or bankruptcy if Wallace or a transferee of his obtained judgment against North Star in excess of \$19,000.00. Moreover, the Bank no longer had the security which it thought it had, for its mortgage was now junior and subordinate to the Gillis mortgage because of the terms of the judgment that Wallace obtained against Gillis.

Gillis had been responsible for this situation, and had the obligation, both legal and moral, to indemnify North Star and the Bank against this potential financial disaster that both of the latter faced. But even though demands were made of Gillis to take some action, he refused to do anything.¹⁴ Consequently, the Bank did the only thing that it could do under the circumstances; after giving appropriate notice,¹⁵ it redeemed the note and mortgagee's interest in the

¹⁴Manning deposition (R. 67-68); Affidavit of April 10, 1958, of James A. von der Heydt (R. 101-108).

¹⁵(R. 37-38); Manning deposition (R. 64-65).

North Star property by paying Wallace the sum of \$11,225.00.¹⁶

8. Conclusion.

The foregoing statement of facts shows the basis for the Bank's counterclaims against Gillis. The note had already been attached when Gillis was paid \$15,000.00 for it in January 1957; and therefore such payment could not constitute a discharge of the note. Had the facts been revealed by Gillis and known by the Bank and North Star, then the payment to Gillis would not have been made. Thus, this is a clear case of a payment made under the influence of mistake, and a case where it would be inequitable to permit Gillis to retain the benefits of such payment.

The Bank was entitled to recover the sum of \$11,225.00. The facts show that when the Bank paid Wallace this sum, this was a payment that Gillis, in equity and good conscience, ought to have made. Gillis had been unjustly enriched at the expense of the Bank, and therefore the latter was entitled to restitution from Gillis to that extent.

This is also true on equitable principles of subrogation. Wallace set the price on the note and property interest as \$11,225.00 because this was the balance due him on his judgment against Gillis.¹⁷ This payment had the effect of paying off the judgment—thus relieving Gillis from this obligation. The Bank, not being a mere volunteer in making such payment, was

¹⁶(R. 39-40); Manning deposition (R. 66-67).

¹⁷Affidavit of von der Heydt of April 10, 1958 (R. 106).

subrogated to Wallace's rights as they then existed, and was therefore in a position to enforce the judgment against Gillis to the extent of \$11,225.00.

QUESTIONS PRESENTED.

Under the provisions of Rule 56 of the Federal Rules of Civil Procedure, the Bank was entitled to summary judgment and recovery against Gillis on its counterclaims—

“... if the pleadings, depositions, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.”

Thus the two questions for determination are:

1. Was there any genuine issue as to any material fact?
 2. If not, then was the Bank, as a matter of law, entitled to judgment against Gillis on its counterclaim?
-

SUMMARY OF ARGUMENT.

1. In his reply to the Bank's counterclaims, Gillis has admitted nearly all of the material facts which establish the basis for the Bank's judgment. Those which were not admitted, and which were denied (either generally or because of lack of sufficient knowledge or information) have been established as true by evidence produced by Bank, i.e., the deposi-

tions of Manning and Gustafson, and the affidavit of James A. von der Heydt. Gillis failed to offer counter-affidavits or other materials that would tend to controvert that which the Bank had established as true, and he has not specified any opposing evidence that he could have adduced which might reasonably have changed the result. Thus, there was no credible issue of fact to be tried, and the action of the District Court in granting summary judgment for the Bank was proper.

2. The Bank paid Gillis \$15,000.00 for the purpose of discharging an obligation of North Star to Gillis which was represented by a negotiable promissory note. At the time of payment, the Bank was ignorant of the fact that the payment did not discharge the note because of a prior attachment of the instrument by Wallace, a judgment creditor of Gillis. The note became an enforceable obligation in the hands of Wallace, a holder in due course. Because of circumstances surrounding the judgment obtained by Wallace against Gillis, and the business affairs between and among Gillis, North Star and the Bank, the Bank's security (a mortgage from North Star to the Bank) was endangered. The Bank was obliged to redeem the note by paying Wallace the sum of \$11,225.00; and this payment had the effect of discharging and satisfying to that extent Wallace's judgment against Gillis.

Gillis, by having his debt to Wallace so paid, was enriched to the extent of such payment. This enrichment was unjust, because it would be inequitable to

permit Gillis to retain this benefit—after he had previously accepted \$15,000.00 in full payment of the negotiable note. The Bank, therefore, is entitled to restitution from Gillis of the \$11,225.00; for it is an established principle of equity that one who has been unjustly enriched at the expense of another is required to make restitution to the other.

The District Court, then, was correct in holding that the Bank, as a matter of law, could have judgment against Gillis.

ARGUMENT.

1. THERE WAS NO CREDIBLE ISSUE OF FACT TO BE TRIED.

Nearly all of the material facts which established the basis for the Bank's recovery on its counterclaim are admitted in Gillis' reply (R. 43-47). Those which were not admitted, and which were denied either generally or because of lack of sufficient knowledge or information, have been established as true by the depositions of James G. Manning and Ernest H. Gustafson, and by the affidavit of James A. von der Heydt. The court below has pointed this out in its oral decision (R. 116-118).

Furthermore, Gillis does not challenge this—either in his statement of points (R. 143), in a specification of errors (of which there is none), or in argument in his brief. He does not contend that the facts alleged by the Bank in its counterclaim are not true; his sole argument rests upon purported facts contained in paragraphs IV and V of his amended complaint (R.

7), and which, for the most part, were denied by the Bank (R. 14).

Gillis says that when he made the assignment to the Bank of his contract with the City of Nome (R. 10-12), the Bank agreed that—

“... no other claim or setoff or debt should be charged against the proceeds of said assignment and that only advances made by the Defendant shall be reimbursed by virtue of a receipt of any money under the assignment and that any excess or balance over and above the advances of the Defendant shall be paid to the Plaintiff immediately upon receipt of the proceeds under the said assignment.” (R. 7-8.)

Thus, the whole theory of appellant's case is this:

(a) Gillis had a construction contract with the City of Nome, Alaska, which called for the payment to him by the City of a sum in excess of \$41,000.00.

(b) Gillis assigned to the Bank under this contract—

“... any and all amounts now due or owing, or which may hereafter be or become due or owing, or remain unpaid at any time or times by the City of Nome, Alaska, to assignor . . .”

Furthermore, it was provided that—

“This assignment is made and entered into to secure and provide for the payment of *any and all obligations now due or owing or which may hereafter be or become due or owing* by the undersigned Assignor to the Bank.” (Emphasis added.) (R. 12.)

(c) Despite the express wording of the assignment, Gillis asserts that there was an oral agreement that the written contract of assignment did not mean what it said at all—i.e., that the assignment was not really made to secure the payment of “any and all obligations now due or owing or which may hereafter be or become due or owing” by Gillis to the Bank (R. 12).

(d) Because of this purported contemporaneous oral agreement, which modified, and even contradicted, the unambiguous provisions of the written instrument, it is appellant’s theory that the Bank had no right to retain for itself from the assigned funds the sum of \$11,225.00, despite the fact that by reason of Gillis’ unjust enrichment, this sum could be lawfully claimed by the Bank from Gillis in an action based upon the equitable theory of restitution. In other words, the Bank was supposed to have paid over the \$11,225.00 to Gillis at the same time that it had a valid claim in that amount against Gillis, and then after that brought suit on such claim.

This theory of the case as advanced by appellant is not sound. In answer to the amended complaint, the Bank denied the existence of such an oral modification of the contract of assignment (R. 14). And the testimony of James G. Manning, executive vice-president of the Bank, negatives the theory now advanced by Gillis. Mr. Manning testified that Gillis had instructed him to “hold” this money until he could discuss the matter with his attorney, and that after giving such instructions to Manning, Gillis never returned to the Bank to discuss the matter any further

(R. 70). Moreover, after this conversation had taken place, Gillis' attorney, Mr. Crane, discussed this matter with Manning, and mentioned to the latter that he would like to have the Bank apply the \$11,225.00 as a credit on a prior and still existing mortgage loan from the Bank to Gillis (R. 73). Certainly, this testimony serves to discredit the theory now proposed by Gillis—that such funds were to be promptly paid to him and not to be used as credit against other claims or set-offs or debts that might be owing from Gillis to the Bank (R. 7).

Gillis made no effort to controvert Manning's testimony. The deposition was taken pursuant to a stipulation entered into between counsel for Gillis and for the Bank (R. 84), and Gillis did not even cross-examine the witness. There was not produced any counter-affidavit or deposition of Gillis, and the only matters filed by him in opposition to the motion for summary judgment were the affidavits of Robert A. Parrish (R. 109) and of Gillis' counsel, Fred D. Crane (R. 112). Neither affidavit touched on the subject of the disposition of the assigned funds, and thus neither served to discredit the testimony of the Bank's witness on this point.

The deposition of Manning must be taken at its face value. It establishes the lack of a triable issue on this aspect of the controversy. What the witness has testified to has not been discredited by Gillis—or even explained or denied by him. Since Gillis has failed to offer counter-affidavits or other materials that raise a credible issue, and has not at least specified

some opposing evidence that he could have adduced which might reasonably have changed the result, the granting of the Bank's motion for summary judgment was entirely proper. *Lindsey v. Leavy*, 149 F. 2d 899, 902 (CA-9 1945); *Byrnes v. Mutual Life Insurance Company*, 217 F. 2d 497, 500-501 (CA-9 1955); *James v. Honaker Drilling, Inc.*, 254 F. 2d 702, 706 (CA-10 1958); *Moore's Federal Practice*, Vol. 6, Sec. 56.11 (3), pp. 2067-2073.

The authorities cited by Gillis in support of his argument that there was a genuine issue to be tried (Appellant's Brief, pp. 3-6) are perfectly sound cases, and the Bank does not quarrel with their holdings. But they are of no assistance to Gillis because of the essential differences between the factual situations, there and here. In the cases referred to there were in fact triable issues that had been raised, not only by the pleadings, but also by affidavits and other evidence; whereas in the case being considered here, there were no such issues of fact for trial.

It is true, as Gillis states, that his complaint—

“ . . . recites as cause one of the action that the assignment was a separate and distinct transaction and was delivered to the appellee under certain conditions; that Appellee has accepted such an assignment with the clear understanding that upon the performance and completion of the work called for under the school contract by the Appellant, and the Appellee being reimbursed for the specific advances made against such an assignment, any monies over and above the Appellee's advances were to be remitted to the Appellant.” (Appellant's Brief, page 5.)

But a mere recitation of something does not serve to foreclose summary disposal of the case where the truth of the alleged facts recited are discredited by depositions of the adverse party, and where the appellant fails to come forth with something that would serve to verify that which is contained in his complaint.

The assignment was made in March 1957 (R. 10-12). It was in August of that year that the discussion took place between Gillis and Manning, where the latter was instructed to "hold" the \$11,225.00 (R. 70). And it was even later, in October, that Gillis' counsel, Mr. Crane, suggested that the money be used as a credit against other indebtedness owing by Gillis to the Bank (R. 73).

Thus, even assuming that there had been a contemporaneous, oral modification of the contract of assignment, the evidence shows that subsequent to this Gillis had waived his purported right to have the assigned funds paid to him without regard to other obligations that he owed to the Bank. This has not been denied or controverted in any fashion by Gillis, even though there was ample opportunity for him to specify some opposing evidence that he might have had. This is precisely the type of situation that calls for the application of the remedy of summary judgment.

This demonstrates that the factual statement set out in Gillis' brief (pp. 1-3) is not accurate. The judgment that was secured by the Bank was not based solely on affidavits and depositions taken of the Bank's

witnesses (Appellant's Brief, p. 2), but rather was based almost entirely on the admissions contained in the pleadings. The District Court did consider the depositions and the affidavits of both parties, as is permitted by Rule 56. But it found from this consideration, and from the pleadings, that the only issue of fact controverted was that relating to the claimed knowledge of the officers of the Bank of the attachment of the note; and the court found this to constitute no genuine issue of material fact (R. 116-118, 121).

It also is not true that the assignment by Gillis to the Bank was not considered by the court below, or that Gillis was deprived of his right to submit proof as to what he terms the "true understanding between the parties." (Appellant's Brief, p. 3). The fact is that the legal effect of the assignment was fully considered by the District Court (R. 119). And, as pointed out above, Gillis did not avail himself of the adequate occasion afforded him to produce evidence on this subject by way of depositions or affidavits.

2. THE JUDGMENT FOR THE BANK WAS CORRECT AS A MATTER OF LAW.

Gillis appears to rely wholly upon the argument that the assignment was made on the sole understanding that moneys in excess of funds advanced by the Bank on Gillis' contract with the City of Nome were to be paid to him—regardless of other transactions between the parties. He does not argue that if such

“other transactions” did give rise to the Bank’s right of set-off, that he was not indebted to the Bank on the basis of his obligation to make restitution in accordance with the Bank’s counterclaims in this action.

Thus, one might assume from this that Gillis admits the validity of the Bank’s claim for restitution, and in effect, that the Bank might have judgment against Gillis on its counterclaim—provided, that the judgment is not satisfied by the application of the \$11,225.00 which had been retained by the Bank from the assigned funds.

If this is a correct assumption to make, then the Bank need not proceed beyond this point in its answering brief. But in the event that the court wishes, nevertheless, to consider the legal theory of the Bank’s claim against Gillis, then the following additional argument may be considered.

(a) The Payment to Gillis of \$15,000.00 Was Made Under Influence of Mistake of Fact.

When the Bank paid the \$15,000.00 to Gillis on or about January 30, 1957, it is uncontroverted that such payment was made in the belief that the North Star-Gillis note for \$19,854.83 was thus paid in full. If this had not been the belief of North Star and the Bank, then it is obvious that the Bank would not have paid out the \$15,000.00 to Gillis and, at the same time, make this a loan to North Star. This is borne out by the direct testimony of Manning,¹⁸ the executive vice-president of the Bank, and by the testimony of Gus-

¹⁸Manning deposition (R. 61-63).

tafson,¹⁹ one of the North Star partners. And it is an obvious inference from the admitted facts; for no one, particularly a commercial institution like the Bank, would reasonably be expected to pay \$15,000.00 in full satisfaction of a negotiable promissory note if it knew that the payee did not have control over the note and was unable to effect its discharge.

Therefore, this payment was made under influence of a mistake of fact, caused by the failure of Gillis to notify the Bank and North Star that he did not have possession of the note, that it had been attached by the U. S. Marshal, and therefore, that the \$15,000.00 payment could not discharge the obligation. This was a breach of a duty of good faith that a holder of a note owes to the payor. See *Restatement of Restitution*, Sec. 34, p. 140.

The case of *Tarascio v. Mancuso*, 3 NW 2d 400, 402 (Neb. 1942), establishes the rule of law that supports the Bank's position. In that case the payee of a note had received payments from the maker. However, at the same time that these payments were made, the maker's obligation to the payee had been satisfied by payments made by a third party. This, of course, was unknown to the maker until after he had also paid the obligation.

The court allowed the maker of the note to recover payments he had made to the payee. The court said that where money is paid to another under influence of mistake, i.e., upon the supposition that specific

¹⁹Gustafson deposition (R. 92-94).

facts are true, which would entitle the other to the money, and the money would not have been paid if it had been known to the payor that the facts were untrue, that an action will then lie to recover back such money.

That is the precise situation here. The Bank paid Gillis \$15,000.00 upon the supposition that this payment constituted full payment and discharge of a promissory note for over \$19,000.00. If this had been true, then clearly Gillis, the payee of the note, would have been entitled to the money. But this supposition was erroneous, because the obligation could not be discharged by such payment; and if the Bank had known that, the payment would not have been made. Therefore, the Bank either in its own right, or as assignee of North Star,²⁰ may have recovery against Gillis.

Explicit authority for the Bank's position is contained in the American Law Institute's Restatement of Restitution. Sec. 24 (1) states:

“Unless it is otherwise agreed, a right to restitution exists in favor of a person who, erroneously believing because of a mistake of fact that another has a right, title, or power, other than an interest in land, and induced by such mistake has paid money to the other in exchange for the transfer of or promise to transfer the right or title or for the exercise of or the promise to exercise the power, if because of the non-existence of such right, title or power, the payor fails to receive what it was agreed he should receive.”

²⁰(R. 41-42) ; Gustafson deposition (R. 97-98).

On page 112 of the Restatement the following illustration of the rule is given:

“2. A owes B \$100. This debt is garnisheed by C. B assigns the debt to D for \$80, both B and D being in ignorance of the garnishment proceedings which entitle C to receive payment from A. D is entitled to restitution of \$80 from B.”

This illustration, “translated” to fit the facts in this case, results in the following:

North Star owed Gillis \$15,000.00. This debt is garnisheed by Wallace. Gillis assigns the debt to the Bank,²¹ both Gillis and the Bank being in ignorance of the garnishment proceeding, which entitles Wallace to receive payment from North Star. The Bank is entitled to restitution from Gillis.

Assuming that this had been the complete factual situation, the Bank would be entitled to restitution from Gillis, because—

(a) The Bank erroneously believed, because of a mistake of fact, that Gillis had the right or power to cancel the debt and discharge the negotiable note.

(b) Induced by such mistake, the Bank paid the money to Gillis in exchange for the transfer of the right or title that Gillis had to the note.

(c) That supposed right, title or power of Gillis was, in fact, non-existent because of a prior attachment of the note, and therefore the Bank

²¹Defendant's Answer—Ex. 3.

failed to receive what it was agreed that it should receive.²²

The illustration noted above shows that the Bank would be entitled to restitution from Gillis if the latter had been ignorant of the attachment proceedings. But here Gillis knew that he had no title to the note or power or right to discharge it, because instead of garnishing the debt, Wallace had attached the note itself and had taken it from Gillis' possession with the latter's knowledge. In fact, Gillis admits in answering paragraph number 7 of the Bank's first counterclaim that he knew, when he received the \$15,000.00 from the Bank, that the note had been attached and was not in his possession (R. 7, 44).

From the time of attachment, Wallace was deemed to be a purchaser in good faith for value (Sec. 55-6-67 ACLA 1949), and therefore he, and not Gillis, was entitled to receive payment on the note when the \$15,000.00 was paid. Consequently, the facts in this case reveal a much stronger case for restitution than that shown in the above mentioned illustration found on page 112 of the Restatement of Restitution.²³

The rule which permits the Bank to recover here is also stated in *Corpus Juris Secundum*.

"In accord with the general rule stated in the title Payment Sec. 157, 48 C.J. p. 759 note 82, but subject to the limitations hereinafter set

²²Restatement of Restitution, *supra*, Sec. 24 (1).

²³See also: Restatement of Restitution, Sec. 29, p. 129, where it is stated: "* * * Thus a person is entitled to restitution if, because of a mistake of fact, he . . . purchases a note from a person who has no power to transfer it . . ."

forth, ordinarily one paying a negotiable instrument under a mistake of fact may recover such payment from the person receiving the same, unless the circumstances are such that the latter may in good conscience retain the payment. While the payment may certainly be recovered if no negligence can be imputed to the payor in making the payment, it has been held that there may be a recovery regardless of any negligence on his part, if the position of the person to whom payment was made has not thereby been changed to his prejudice.”²⁴

There are certainly no circumstances here which will permit Gillis “in good conscience” to retain the payment—particularly in view of the fact that because of his lack of title to the note at the time it was paid, he later received a benefit in having \$11,225.00 paid by the Bank in satisfaction of the judgment against him which had been obtained by Wallace.

To summarize this portion of the Bank’s argument, and placing the Bank in the place of North Star by virtue of the latter’s assignment of its rights against Gillis²⁵, the situation is this: the maker of a negotiable promissory note made payment of the note to the payee after transfer of the instrument to a bona fide holder in due course (Wallace). In this situation the maker may recover this payment from the payee (10 CJS, Bills and Notes, Sec. 467h, p. 1012).

A case directly in point is that of *Newhall Savings Bank v. Buck*, 197 NW 987 (Iowa 1924). There M

²⁴10 CJS, Bills and Notes, Sec. 467h, pp. 1011-1012.

²⁵Gustafson deposition (R. 97-98).

(the maker) gave his note to P (the payee), who in turn endorsed it and transferred it to X. X then endorsed and transferred the note to Y for value. After these transactions had occurred, M paid the amount of the note to P, believing that the note was then in the hands of X. Y, the last holder and the plaintiff in the action, brought a suit on the note against M, and M sought in the same suit to recover from X.

The court allowed recovery by Y against M—recognizing the settled doctrine that payment of a negotiable note to the payee after negotiation is not binding upon the transferee if the latter is a holder in due course—except where the payee is agent for the holder and authorized by the latter to recover payment.²⁶

However, the judgment of the lower court was reversed in part and the case remanded for a new trial. This was done so that the jury could decide whether, when M paid the amount of the note to P, he was making such payment to P as agent for X—intending that, actually, payment should be made to the person he then thought to have the note, i.e., X.

The appellate court stated that if X had received the payment and had failed to apply it on the note, then he would be liable to M. This case, therefore, is authority for the proposition urged here by the Bank—that if a maker pays the payee and the latter fails to apply payment on the note (which Gillis failed to do), then the maker can recover such payment from the payee.

²⁶A statement of this rule will be found in 103 ALR 653, 656-657.

(b) The Bank Is Entitled to Restitution of the \$11,225.00 Paid to Wallace.

It has been pointed out earlier in this brief that the Bank paid Wallace \$11,225.00 for the North Star-Gillis note and Gillis' interest as mortgagee in the North Star property; that this payment was not made officiously but rather, under legal compulsion; that because Gillis had previously received \$15,000.00 in payment of the note and for a release of his mortgagee's interest, the payment to Wallace by the Bank was a payment which Gillis, in justice, ought to have made; and that since the Bank's payment to Wallace relieved Gillis of paying, to that extent, the judgment that Wallace had obtained against him, Gillis had a distinct benefit conferred upon him by the Bank.

The court below has held that the Bank was not entitled to judgment on its first counterclaim for the sum of \$15,000.00 paid to Gillis to satisfy the note—the reason being that there had been a complete accord and satisfaction between the Bank and North Star for the indebtedness represented by the note (R. 118-119). The Bank has no quarrel with this determination.

The court below, however, did hold that the Bank was entitled to recover the \$11,225.00 which it had been forced to pay to Wallace, the judgment creditor of Gillis (R. 119-120). The Bank submits that this decision was correct; that it was entitled to restitution from Gillis of that amount because Gillis had been unjustly enriched to that extent at the Bank's expense.

Gillis might contend that when the Bank purchased the note from Wallace for \$11,225.00 it acted voluntarily or "officiously", i.e., without legal compulsion, because Wallace did not then own an enforceable obligation. The basis for this argument will possibly be that when Gillis was paid the \$15,000.00, it was at a time when he owned the note and was entitled to payment; therefore, this payment constituted a discharge of the instrument.

But in so arguing, Gillis will overlook the fact that before the first installment of the note had matured, it had been attached by legal process. First of all, the attachment was valid, for the note itself was subject to attachment and it was not necessary to garnish the debt. The Alaska attachment statute states that—

"Personal property capable of manual delivery to the Marshal, and not in the possession of a third person, shall be attached by taking it into his custody" (Sec. 55-6-66 ACLA 1949).

The Supreme Court of Oregon, in construing a similar statute in a case involving the same factual situation, has said:

"* * * It is obvious that, in specifying the class of property subject to attachment, by the Sheriff taking the same into his custody, the statute was intended to include instruments of this character (a negotiable promissory note)."

Fishburn v. Londershausen, 92 P. 1060, 15 Ann Cases 975 (Oreg. 1907).

See also: Annotation in 41 ALR 1003, 1007, *et seq.*

Secondly, the Alaska statutes on attachment also provide that—

“From the date of the attachment until it be discharged or the writ executed, the plaintiff as against third persons shall be deemed a purchaser in good faith and for a valuable consideration of the property, real or personal, attached . . .” (Sec. 55-6-67).

When the Wallace writ of attachment was executed on May 15, 1956, Gillis was the owner of a negotiable promissory note in the amount of \$19,854.83. The note was complete and regular on its face, it was not overdue, it had not been dishonored, and there was no infirmity in the instrument, and it had not been paid. Consequently, when Wallace eventually got physical possession and title to the note at the Marshal’s sale on June 29, 1957, he acquired whatever rights Gillis had had in the note *at the time of attachment*, i.e., May 15, 1956. See 7 CJS, Attachment, Sec. 239, p. 413. And since Wallace, by the terms of the attachment statute, was deemed to be a purchaser in good faith and for value as of the date of attachment, it is clear that he became a holder in due course of this negotiable instrument (Uniform Negotiable Instruments law—Sec. 27-1-72 ACLA 1949). As such, he held—

“... the instrument free from any defect of title of prior parties, and free from defenses available to prior parties among themselves and *may enforce payment of the instrument for the full amount thereof* against all parties liable thereon” (Emphasis added) (Sec. 27-1-77 ACLA 1949).

And even in the absence of an explicit statute such as Sec. 55-6-67, there is good authority for the proposition that Wallace would be a holder in due course because he was a purchaser at a judicial sale. In Beutel's "Brannan Negotiable Instruments Law", 7th Ed., p. 828, it is said:

"In *Middle Tennessee Bank v. McKennon* (Tenn.), 99 SW 2d 564, criticized in 14 Tenn. L. Rev. 631, it was held that a purchaser at a judicial sale could not be a holder in due course. It is submitted that the case is wrong. An instrument does not lose its negotiability simply because it becomes part of a judicial proceeding. A proper result was reached in *Puissecur v. Yarbrough*, 164 P. (2d) 42, affirmed by the Supreme Court [Cal. (2d)], 175 P. (2d) 830."

In the above mentioned case of *Puissecur v. Yarbrough*, 164 P. 2d 42, affirmed in 175 P. 2d 830, a note was in possession of a bank for collection. On June 19, 1940, a writ of execution was issued on a judgment which had been rendered against the payee of the note, and such writ was served on the bank. At this time the note was not delivered to the Sheriff. Then on September 15, 1940, the payee of the note assigned it to X. Later the note was delivered to the Sheriff who then sold it to the plaintiff. Plaintiff brought a suit on the note against the maker. The maker defended on the ground that he had paid the amount of the note to X (the assignee of the payee).

The court said that since the assignment to X took place *after* levy of execution, X could not claim any greater rights by virtue of the transfer than the payee

had at that time. It was held that X took the assignment from the payee subject to plaintiff's rights under the lien of the levy of writ of execution. Therefore, the maker of the note, although having made payments to the assignee, was in default on the note as his liability was not discharged by payments made to the assignee, X.

The net effect of this decision is that the purchaser of the note at the Sheriff's sale was a holder in due course, and had the right to enforce payment against the maker.

Similarly, Wallace became a holder in due course of the North Star-Gillis note. He had the right, and any transferee of his would also have the right,²⁷ to enforce payment of the note for its full amount against North Star. There was no escape from this.

To say the least, the Bank's position was unenviable. A negotiable promissory note which the Bank had thought was discharged in January 1957 suddenly turned up as an enforceable obligation in the hands of a holder in due course. North Star already was indebted to the Bank in excess of \$100,000.00 and was not in particularly good financial condition. A judgment by Wallace, or by a transferee of his, against North Star in excess of \$20,000.00 possibly would have been enough to put North Star in bankruptcy or insolvency, and the chances then of the Bank obtaining regular payments on the \$100,000.00 indebtedness from North Star would be nil.

²⁷See Sec. 27-1-78 ACLA 1949, "Rights of Transferee of Holder in Due Course."

But more serious was the danger to the Bank's security which consisted of a mortgage made in January 1957 on North Star's property. The Bank previously had been the senior encumbrancer of this property under its mortgage of September 1954. But relying on the assignment from Gillis and the release of his second mortgage at the time he was paid the \$15,000.00²⁸, the Bank released its prior mortgage and took a new one from North Star in January 1957.²⁹ Then under the terms of Wallace's judgment against Gillis, followed by the Marshal's sale on execution, the Bank was faced with an alarming fact: the Gillis mortgage had been "revived" by virtue of Wallace's attachment, judgment and execution. It was no longer a "second" mortgage, but now was superior; because it was prior in time to the Bank's mortgage of January 1957.

"A person who has been unjustly enriched at the expense of another is required to make restitution to the other." *Restatement of Restitution*, Sec. 1, p. 12. Gillis was "enriched" by the Bank's \$11,225.00 payment to Wallace, because Gillis thus had his debt to Wallace satisfied to the extent of that payment. Thus, there is no doubt that the Bank conferred a distinct benefit on Gillis.

Gillis' enrichment was unjust because the facts show that he received this benefit in such circumstances that it would be inequitable to permit him to

²⁸Manning deposition (R. 55-56); Gustafson deposition (R. 90-92).

²⁹Manning deposition (R. 57-60).

retain it.³⁰ He had received \$15,000.00 for the note at a time when he had no title or right to that instrument, i.e., when Wallace, by virtue of the Alaska attachment statute, had “purchased” the note in good faith and for a valuable consideration. Solely because of this happening, the Bank was compelled later to pay off Gillis’ debt to Wallace to the extent of \$11,225.00. Certainly, it would be inequitable to allow Gillis to retain the benefit under these circumstances. If the Bank was obliged to pay Wallace \$11,225.00 because Gillis had taken \$15,000.00 for a negotiable promissory note that he had no right to or power to discharge (and this is what happened), then in good conscience Gillis, and not the Bank, is the one who ought to have paid this debt to Wallace.

And the circumstances related above show that the Bank was not a mere volunteer—that it was not acting officiously in making the payment to Wallace. What else was it to do, when the only way it could protect its mortgage security was to have assigned to it by Wallace the note and the mortgagee’s property right that Wallace had obtained at the Marshal’s sale?

The Bank was actually compelled to pay this debt of Gillis, and under the accepted rule in such cases, where the debt is one which another in good conscience ought to pay, the Bank should be allowed to recover the payment from Gillis. See *Brandtjen & Kluge, Inc. v. Fincher*, 111 P. 2d 979, 981 (Cal. 1941). One does not act officiously when he acts from some legal

³⁰For general statement of rule see *Atlantic Coastline v. Florida*, 295 US 301, 309 (1935).

compulsion, nor when he acts from necessity to preserve his property. *City of Biddleford v. Benoit*, 147 Atl. 151, 155 (Maine 1929). Where one pays to protect his interest in property and to prevent it from being sold under foreclosure proceedings, he is allowed to recover the payment so made. *Peterson v. Howell*, 126 So. 363, 365 (Fla. 1930). And it is not necessary that the debtor request that payment be made, or that there be privity of contract between the parties. An action for money paid, or for restitution, is founded on equitable principles—the basis is the unjust enrichment that would result if Gillis is not compelled to reimburse the Bank for the payment made by the latter. *City of Biddleford v. Benoit*, supra, p. 155.

The principles which govern this case are stated in the *Restatement of Restitution*, particularly Secs. 1, 2, 3 and 43. There is no necessity to repeat them here. They clearly support the Bank's claim to recover from Gillis the \$11,225.00 paid by the Bank to Wallace.

(c) The Doctrine of Subrogation Affords a Basis for the Bank's Recovery.

What has been said above with respect to the Bank's right to restitution from Gillis of \$11,225.00, also gives rise to the Bank's right to recover on the equitable doctrine of subrogation. In the case of *Pittsburgh-Westmoreland Coal Co. v. Kerr*, 115 NE 465 (NY 1917), the New York Court of Appeals explained the doctrine as follows:

“The remedy of subrogation is governed by principles analogous to those that govern actions to

recover money paid by mistake. Money paid on a negotiable instrument under a mistake of fact may be recovered back, however negligent the party paying may have been in making the mistake, unless the payment has caused such a change in the position of the other party that it would be unjust to require him to refund.

“Where . . . a payment with money of another, wrongfully obtained, operates to discharge a lien or a debt that is secured by collateral . . . the debt, may in equity be deemed alive for the benefit of the person whose money was so wrongfully used by the debtor, and such person may be subrogated to the rights of the one who owned the debt and the debt be deemed transferred and assigned to such person.

“The right of subrogation or of equitable assignment is not founded upon contract nor upon the absence of contract, but is founded upon facts and circumstances of a particular case and upon principles of natural justice, and generally where it is ~~is~~ equitable that a person furnishing money to pay a debt should be substituted for a creditor or in place of a creditor such person will be so substituted.”

The subject is also discussed in the Restatement of Restitution, Sec. 162, pp. 653, *et seq.* And see also: 50 Am. Jur., Subrogation, Sec. 46, p. 711; 83 CJS, Subrogation, Sec. 14, p. 611.

It is clear that the Bank, then, is entitled to be subrogated to the rights of Wallace, the judgment creditor of Gillis. The Bank's property, consisting of \$11,225.00, was used to discharge an obligation owed

by Gillis—its effect was to have Wallace's judgment against Gillis satisfied. The Bank, as it has been pointed out above, did not act officiously when making this payment. Although the judgment was thus satisfied by the payment of \$11,225.00, equity will revive it so that there is created in the Bank and for its benefit a right which has the effect of placing the Bank in the position of Wallace before the judgment was satisfied. This right consisted of all the rights and remedies of a judgment creditor—particularly the right to have the judgment paid. The right which the Bank thus had ought to have been enforced, as it was by the judgment of the court below, in ordering that Gillis' property, the \$11,225.00 which was in the Bank's possession, be applied by the Bank in satisfaction of the Wallace judgment against Gillis.

CONCLUSION.

For the reasons stated, it is respectfully submitted that the judgment of the District Court should be affirmed.

Dated, May 12, 1959.

JAMES A. VON DER HEYDT,
FAULKNER, BANFIELD & BOOCHEVER,
JOHN H. DIMOND,
Attorneys for Appellee.

No. 16,147

IN THE

United States Court of Appeals
For the Ninth Circuit

WILL M. GILLIS,

Appellant,

VS.

MINERS AND MERCHANTS BANK OF ALASKA,
a Corporation,

Appellee.

Upon Appeal from the District Court
for Alaska, Second Division.

APPELLANT'S REPLY BRIEF.

WARREN A. TAYLOR,

WARREN WM. TAYLOR,

P. O. Box 200, Fairbanks, Alaska,

FRED D. CRANE,

Kotzebue, Alaska,

Attorneys for Appellant.

FILED

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MINERS AND MERCHANTS BANK OF ALASKA,
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Upon Appeal from the District Court
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APPELLANT'S REPLY BRIEF.

**APPELLANT'S BRIEF DOES NOT DISPENSE WITH THE
ARGUMENT THAT AN ISSUE OF FACT EXISTS.**

Appellee's brief goes to great lengths in parading a series of facts involving the various mortgages, notes and other transactions between the Appellant, Appellee, and the North Star playing a substantial role in the transaction. The \$15,000.00 constantly referred to in Appellee's brief (p. 12) was the same sum which was included in the \$110,000.00 mortgage executed and

issued by the North Star to the bank and included in such mortgage. This fact remains undisputed and was conceded by the defendant. (Tr. pages 17 and 59.) Defendant's Answer, and Deposition of Manning.

A reading of the transcript and the Appellee's brief does not dispel the issue that there is a serious controversy between the parties as to the arrangement entered into prior to and at the time of the execution of the assignment to the Appellee and that an understanding was had between the parties, according to the Appellant's version, to the effect that the specific monies collected by the Appellee represented the proceeds of the school contract and were to be handled in a certain manner and were to form no part or portion of the series of transactions had before between the parties.

That such a doubt must be resolved in favor of the parties against whom an application for a summary judgment is made has been clearly confirmed in the recent case decided by this court, April 24, 1959,

Robert N. Cameron and Jack Crawford, Appel-
lants,

vs.

Vancouver Plywood Corporation, Appellee.

In an application made for a summary judgment involving a recovery of damages for breach of an oral contract to log timber the court stated as follows:

"In deciding whether there is a genuine issue as to any material fact, the circumstance that a

particular pleading, deposition, admission, or affidavit is taken as true is not determinative. An issue of fact may arise from the countering inferences which are permissible from evidence accepted as true. As stated in *Slocum v. New York Life Insurance Co.*, 228 U. S. 364, 388-389, ‘. . . the admission (of facts on demurrer) . . . must be of the facts, and not merely the evidence from which their existence is inferable. . . .’ See, also, *Guerrero v. American Hawaiian Steamship Co.*, 9 Cir., 222 F.2d 238, 243.

All doubts as to the existence of a genuine issue as to a material fact must be resolved against the party moving for a summary judgment. *Toebelman v. Missouri-Kansas Pipe Line Co.*, 3 Cir., 130 F.2d 1016. It is especially necessary to be cautious in making such a determination where, as here, a jury trial has been demanded. *Cox v. English-American Underwriters*, 9 Cir., 245 F.2d 330, 332, 333.

Having concluded that there is here a genuine issue as to a material fact, the judgment is reversed and the cause is remanded for further proceedings.”

CONCLUSION.

The arguments urged in the Appellant’s brief, namely, that there was a question of fact as to the circumstances under which the assignment was delivered and as to what disposition was to be made of the proceeds over and above the specified advances

made by the bank on such contract, are fully applicable.

Dated June 29, 1959.

WARREN A. TAYLOR,
WARREN W.M. TAYLOR,
FRED D. CRANE,
Attorneys for Appellant.

NO. 16148

United States
COURT OF APPEALS
for the Ninth Circuit

HAMISH SCOTT MacKAY,

Appellant,

v.

EUGENE D. McALEXANDER, Acting District Director,
District 31, Immigration and Naturalization
Service,

Appellee.

APPELLANT'S OPENING BRIEF

*Appeal from the United States District Court
for the District of Oregon.*

PETERSON, POZZI & LENT,
NELS PETERSON,

901 Loyalty Building,
Portland 4, Oregon,

GERALD H. ROBINSON,

1006 Failing Building,
Portland 4, Oregon,

Attorneys for Appellant.

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District 31, Immigration and Naturalization
Service,

Appellee.

APPELLANT'S OPENING BRIEF

*Appeal from the United States District Court
for the District of Oregon.*

JURISDICTIONAL STATEMENT

This is an appeal from a final Order Dismissing Appellant's Petition for Writ of Habeas Corpus and Complaint for Injunctive Relief to Prevent Agency Action. Reference is made to the Petition (R. 3), the Amended Petition (R. 24), the Answer and Return to the Amended Petition (R. 39), and the Order Dismissing

the Petition and Discharging the Writ of Habeas Corpus (R. 58).*

The jurisdiction of the District Court was invoked under Title 28, United States Code, Section 2241, 62 Stat. 964, and Title 5, United States Code, Section 1009, 60 Stat. 237.

The jurisdiction of the Court of Appeals for the Ninth Circuit is invoked under Title 28, United States Code, Section 2253, 62 Stat. 967, and Title 28, United States Code, Section 1291, 62 Stat. 929.

The validity and interpretation of the following statute of the United States is involved: The Act of October 16, 1918, 40 Stat. 1012, as amended by Section 22 of the Internal Security Act of 1950, 64 Stat. 1006, 1008, now Section 1251(a)(6)(c), Title 8, United States Code.

STATEMENT OF THE CASE

Hamish Scott MacKay was born 53 years ago in Canada and last entered the United States at North Portal, North Dakota, November 24, 1958. The original warrant of arrest was dated May 25, 1949, and charged that MacKay was an alien subject to deportation in that after entry he was alleged to be a member of an organization, association, society or group that advises, advocates, or teaches the overthrow by force and violence of the government of the United States. The

* In this brief, "(R.)" refers to the printed record of the proceedings in the United States District Court, and "(Tr.)" refers to Exhibit 1, of the typewritten transcript of the hearings before the Immigration and Naturalization Service.

original hearing was begun on July 24, 1950, and continued from time to time thereafter. During the course of the hearing an additional charge was lodged against MacKay that he was deportable for being a member of the Communist Party after entry into the United States. On May 4, 1951, the hearing officer found that appellant was an alien and that he had been a member of the Communist party from 1936 to 1941 and that he was therefore subject to deportation. This ruling was affirmed by the Board of Immigration Appeals and by this Court in *Mackay v. Boyd*, 218 F2d 666 (CA 9, 1955), cert. denied 350 US 840. On October 28, 1955, appellant filed with the Board of Immigration Appeals a motion to reopen the hearing for the purpose of filing an application for suspension of deportation.

On October 31, 1955, appellant filed a petition in District Court for a Writ of Habeas Corpus against his immediate deportation in order that he might await the decision of the Board of Immigration Appeals. The petition was denied and upon appeal to the Court of Appeals, a restraining order was granted against deportation until the Board of Immigration Appeals could act.

On May 16, 1956, the hearing on the application for suspension of deportation was held and on June 21, 1956, the hearing officer denied the relief requested. The Board of Immigration Appeals affirmed this decision on November 2, 1956.

On February 17, 1958, the Court of Appeals dismissed the appeal to the District Court on stipulation of counsel with leave granted to file an amended petition.

On March 5, 1958, appellant appealed to the Board of Immigration Appeals requesting review of his case in the light of the decision of the United States Supreme Court in *Rowoldt v. Perfetto*, 355 US 115. The Board dismissed the appeal and ordered the appellant to surrender for deportation.

On June 19, 1958, appellant filed a petition for Writ of Habeas Corpus and Complaint for Injunctive Relief in the United States District Court for the District of Oregon and after hearing, the District Judge dismissed the petition and discharged the Writ of Habeas Corpus theretofore issued. In the same Order, appellant was remanded to the Immigration Service for deportation. This order was dated August 15, 1958.

On August 18, 1958, appellant filed Notice of Appeal to the United States Court of Appeals for the Ninth Circuit and at the same time applied to the Court of Appeals for an Order restraining the Immigration Service from deporting him during the course of his appeal and enlarging him on reasonable bail. The matter was orally argued to this Court and on August 27, 1958, the Court restrained appellee from deporting appellant during the pendency of the appeal and enlarged the appellant on bail until final termination of the appeal.

The appeal involves the following issues:

1. Whether the Act of October 16, 1918, 40 Stat. 1012, as amended by Section 22 of the Internal Security Act of 1950, 64 Stat. 1006, 1008 (now Section 1251(a)(6)(c), Title 8, United States Code), is unconstitutional as being in violation of Article 1, Section 9, Clause 3 of the

United States Constitution (Bill of Attainder), the First Amendment to the Constitution, and the Fifth Amendment to the Constitution.

2. Whether there is substantial, probative and reasonable evidence upon which a finding can be based that appellant was a member of the Communist Party of the United States after entry into the United States so as to make appellant deportable under the standards set up by the United States Supreme Court in the case of *Rowoldt v. Perfetto*, 355 US 115.

3. Whether appellant was afforded a fair hearing on his application for suspension of deportation before the Immigration and Naturalization Service of the United States in that the special inquiry officer at said hearing, John W. Keane, was one and the same person who had served as hearing officer upon the initial hearings as to whether appellant was deportable, and had ordered appellant to be deported.

4. Whether the order denying suspension of deportation of appellant was arbitrary, capricious, and an abuse of discretion and otherwise not in accordance with law.

5. Whether appellant is in fact a citizen of the United States and therefore not subject to deportation.

SPECIFICATION OF ERRORS

1. The District Court erred in failing to declare unconstitutional the Act of October 16, 1918, as amended by the Act of June 28, 1940, and as amended by the Internal Security Act of 1950, now Section 1251(a)(6) (c), Title 8, United States Code.

2. The District Court erred in finding that there was substantial, probative and reasonable evidence that appellant was a member of the Communist Party of the United States after entry into the United States and is thus subject to deportation.

3. The District Court erred in failing to find that appellant was denied a fair hearing on his application for suspension of deportation.

4. The District Court erred in failing to find that the order denying appellant's suspension of deportation was arbitrary, capricious, and an abuse of discretion and otherwise not in accordance with law.

5. The District Court erred in finding that appellant is an alien and not a citizen of the United States.

ARGUMENT

I. THE ACT UNDER WHICH THE GOVERNMENT SEEKS TO DEPORT APPELLANT IS UNCONSTITUTIONAL AS A BILL OF ATTAINDER BECAUSE IT INFLECTS PUNISHMENTS AND PENALTIES UPON ASCERTAINABLE MEMBERS OF A GROUP IN VIOLATION OF ARTICLE I, SECTION 9, CLAUSE 3 OF THE UNITED STATES CONSTITUTION.

While appellant still maintains that the Act under which the government seeks to deport him is unconstitutional as a violation of due process of law and freedom of speech, and as being an ex post facto law, he recognizes that this Court may feel foreclosed by the decisions of the Supreme Court in *Harisiades v. Shaughnessy*, 342 U.S. 580, and *Galvan v. Press*, 347 U.S. 522. For this reason appellant herewith asserts his claim of unconstitutionality without making further argument at this time.

With respect to the question of whether the Act is a bill of attainder, we do not believe that the Court is in any way foreclosed from considering the matter. On the contrary, we have been unable to find any cases in which the Supreme Court has ruled on the validity of the Act as against the assertion that it is a bill of attainder. In neither *Galvan* nor *Harisiades* is the issue discussed.

Section 1251(a)(6)(c) of Title 8, United States Code, provides as follows:

“Any alien in the United States (including an alien crewman) shall, upon the order of the Attorney General, be deported who—

“(6) is or at any time has been, after entry, a member of any of the following classes of aliens:

“(C) Aliens who are members of or affiliated with (i) the Communist Party of the United States;”.

This statute constitutes a bill of attainder within the meaning of the Constitution. The Supreme Court, in striking down state legislation as bills of attainder in the cases of *Cummings v. Missouri*, 4 Wall. 277 and *Ex Parte Garland*, 4 Wall. 333 defined the character and purpose of a bill of attainder and the nature of the evil enjoined by the Constitution.

In the more recent case of *United States v. Lovett*, 328 U.S. 303, the Supreme Court further clarified its earlier opinions of this type of legislation. It said:

“They (Cummings and Garland cases) stand for the proposition that the legislative acts, no matter what their form, that apply either to named individuals or to easily ascertainable members of

a group in such a way as to inflict punishment on them without judicial trial are bills of attainder prohibited by the Constitution." (327 US at 305)

Section 1251(a)(6)(c) possesses all the attributes of a bill of attainder. It outlaws by legislative fiat the individuals of a named and ascertainable group and inflicts punishment upon them without judicial trial. The Constitution exists for the very purpose of preventing such arbitrary destruction of human freedom; it exists for the purpose of safeguarding and protecting the individual from what Mr. Justice Story castigated as "An irresponsible despotic discretion (of legislative power), being governed solely by what it deems political necessity or expediency, and too often under the influences of unreasonable fears or unfounded suspicions." He further pointed out:

"Bills of this sort have been most usually passed in England in times of rebellion, or of gross subserviency to the crown, or of violent political excitement; periods in which all nations are most liable (as well the free as the enslaved) to forget their duties, and to trample upon the rights and liberties of others." 2 Story, Commentaries on the Constitution, 1344 (5th Ed.).

The constitutional injunction against bills of attainder applies alike to aliens and citizens. The Court has repeatedly declared that an alien lawfully here is entitled to the same constitutional safeguards to protect his life, liberty, and property as a citizen.

"His personal rights when he is in this country * * * are as fully protected by the supreme law of the land as if he were a native or naturalized citizen of the United States." *Lem Moon Sing v.*

United States, 158 US 538, 547; *Wong Wing v. United States*, 163 US 228, 238; *Yick Wo v. Hopkins*, 118 US 356, 369.

The framers of the Constitution were not unmindful that bills of attainder had been passed by several states banishing British subjects from American territory or confiscating their property. (Sec. 4g, New York Laws of 1779, Ch. 25; 2 Belknap History of New Hampshire, 1912). Since bills of attainder against aliens were known before the Constitution, there is no basis for the argument that the prohibition against them was intended for the benefit of citizens only. The Constitutional prohibition is in fact by its very terms absolute and unqualified. The limitation is upon the power of Congress to pass this type of legislation regardless of whom it affects. The Constitution simply says that no bill of attainder "shall be passed."

There is no merit in the contention that the deportation does not constitute punishment and that therefore the protection against bills of attainder does not apply. As a matter of fact deportation inflicts literal punishment and constitutes in law a deprivation of rights and privileges, and this has been affirmed by the Courts repeatedly.

"Though deportation is not technically a criminal proceeding, it visits a great hardship on the individual and deprives him of the right to stay and live and work in this land of freedom. That deportation is a penalty—at times a most serious one—cannot be doubted." *Bridges v. Wixon*, 326 US 135, 154.

Mr. Justice Learned Hand in *United States Ex Rel Klonis v. Davis*, 13 F2d 630 (CA 2, 1926) in speaking of an alien long resident who was about to be deported following convictions for crime, characterized deportation as "dreadful punishment." Deportation forcibly separates the alien from his American family and his American friends. It removes him from his home, which is in fact America, and returns him to a strange land. In short, deprives him of what Justice Brandeis has called "All that makes life worth living." *Ng Fung Ho v. White*, 259 US 276, 284.

Even if deportation is held not to be criminal punishment, aliens are still not deprived of the protection of the constitutional prohibition against bills of attainder. On the contrary, legislation imposing no criminal punishment whatsoever has been declared unconstitutional under the prohibition against bills of attainder solely because it deprives individuals of various rights, privileges and salaries. *United States v. Lovett*, 328 US 303; *Ex Parte Garland*, 4 Wall. 333, 337; *Pierce v. Car-skadon*, 83 US 234; *Cummings v. Missouri*, 4 Wall. 277.

In the case of *Ex Parte Garland*, *supra*, the Court stated:

"The question in this case is not as to the power of Congress to prescribe qualifications but whether that power has been exercised as a means for the infliction of punishment, against the prohibition of the Constitution." 4 Wall. 379-80.

As Mr. Justice Field in *Cummings v. Missouri*, *supra*, said at pages 321-322:

"The theory upon which our political institutions

rest is, that all men have certain inalienable rights—that among these are life, liberty, and the pursuit of happiness; that in the pursuit of happiness all avocations, all honors, all positions are alike open to everyone, and that in the protection of these rights all are equal before the law. Any deprivation or suspension of any of these rights for past conduct is punishment, and can be in no otherwise defined.”

We think that the paucity of cases in United States judicial history declaring legislative acts to be in violation of the Constitutional prohibition against bills of attainder demonstrates that the doctrine has had deep and widespread acceptance by the legislative and executive branches of our government.

We submit that the legislation which we here question falls squarely within the time honored principle condemning bills of attainder, and we urge this Court to again uphold this bulwark of human freedom by declaring this portion of the Act unconstitutional.

II. APPELLANT IS NOT AN ALIEN BECAUSE HIS FATHER WAS AN AMERICAN CITIZEN. THEREFORE APPELLANT IS NOT SUBJECT TO DEPORTATION.

Appellant's father, James Scott MacKay, was born in Scotland and was naturalized an American citizen in 1900 in North Dakota. Appellant's mother was a native-born American citizen (Tr. 605-6). On June 18, 1903, James Scott MacKay graduated from the University of North Dakota. On the following day he married appellant's mother in the State of North Dakota. Immediately thereafter James Scott MacKay and his wife went to Canada and eventually settled near the city of Calgary

(R. 79-88). Unknown to Mrs. MacKay, her husband obtained a certificate of naturalization as a Canadian citizen on February 8, 1905 (R. 103).

James Scott MacKay returned to the United States, in 1924, with his wife and the appellant, Hamish Scott MacKay, who was born in 1905 (Tr. 605). While in the United States James Scott MacKay attended a chiropractic school in Davenport, Iowa, for about a year, went to the State of Colorado, and there obtained a license to practice chiropractic and did so practice this profession for approximately two years. He returned to Canada in the fall of 1927 and died on February 9, 1928 (Tr. 610). Hamish Scott MacKay last entered the United States of America on November 28, 1928, at North Portal, North Dakota (Tr. 611).

Section 13, Chapter 77 of the Revised Statutes of Canada, 1906, which section was in force at the time James Scott MacKay received his Canadian naturalization certificate, provides that an alien must reside within Canada for a term of not less than three years before he may take and subscribe to the oath of residence and allegiance which are prerequisite to naturalization. As a matter of fact, it may be seen from the form of oath of residence prescribed in the above Chapter 77 that three years residence is required of an alien who aspires to Canadian citizenship. It will be noted that James Scott MacKay entered Canada no earlier than June 19, 1903, and the certificate of naturalization which appears as Exhibit 15 is dated February 8, 1905. It is thus mathematically impossible for James Scott MacKay to have

fulfilled what is obviously a jurisdictional requirement of the Canadian naturalization law. As a result James Scott MacKay's alleged Canadian citizenship was null and void and of no effect.

In this connection, attention is directed to the treaty between the United States and Great Britain dated May 13, 1870, 16 Stat. 775, which provides that citizens of either country naturalized as citizens or subjects of the other shall be treated as citizens of such country by the country of origin. The treaty further provides in Article III thereof that in case citizens of one country naturalized in another country wish to renew their residence in the country of origin, they may be restored to the privileges of citizenship there "on such conditions as that government may think fit to impose."

This Court will take judicial notice that the Dominion of Canada was at all times in question a portion of, and a dependency of, the British Empire. James Scott MacKay was by virtue of his birth in Scotland originally a British subject. His naturalization as an American citizen was in due form and when he went to Canada, his failure to comply with Canadian statutory procedure insofar as his naturalization is concerned must have resulted in continued American citizenship under the aforementioned treaty. This is because any person formerly a British subject desiring to resume his British nationality must do so pursuant to the laws of the particular dominion or province of the British Empire under said treaty, and in no other way.

The government has contended below that the fact

that James Scott MacKay took an oath of allegiance to his Britannic Majesty when he applied for Canadian citizenship automatically terminated his American citizenship. This view does not give full force and effect to the aforementioned treaty, whose purpose is to eliminate the possibility of "statelessness" as between citizens of Great Britain and the United States. The clear intent of the treaty is to assure that persons are either citizens of the United States or subjects of Britain. They must be one or the other, and not both. By the same token, under this treaty, they cannot be rendered stateless.

If the treaty is construed in this light, when James Scott MacKay went to Canada and applied for Canadian citizenship, he retained his American citizenship until he was validly naturalized as a Canadian. This was never accomplished because his alleged certificate of Canadian citizenship was void from the start because of his insufficient residence in Canada. Thus he remained an American citizen under the terms of the treaty.

If James Scott MacKay was an American citizen, and his wife was also an American citizen by virtue of having been born within the United States, then it follows that appellant is an American citizen. Reference is made to the Act of 1855 which was compiled at page 1268 of the U. S. Compiled Statutes of 1901 and which provides that all children heretofore born or hereafter born out of the limits and the jurisdiction of the United States, whose fathers were or may be at the time of their birth citizens thereof, are declared to be citizens of the United States, with one exception not pertinent to this case.

Thus, appellant is in fact a citizen of the United States and is not subject to deportation.

III. APPELLANT WAS NOT AFFORDED A FAIR HEARING ON HIS APPLICATION FOR SUSPENSION OF DEPORTATION BECAUSE THE SPECIAL INQUIRY OFFICER PRESIDING AT SAID HEARING WAS ONE AND THE SAME PERSON WHO HAD SERVED AS HEARING OFFICER IN THE INITIAL HEARINGS ON APPELLANT'S DEPORTABILITY AND HAD ORDERED APPELLANT DEPORTED. HE WAS THEREFORE BIASED AND PREJUDICED AND COULD NOT HAVE BEEN AN IMPARTIAL INQUIRY OFFICER AS REQUIRED BY LAW.

John W. Keane was the presiding officer at the hearing which was held to determine if appellant was a deportable alien. At the conclusion of that hearing the said John W. Keane on May 4, 1951, issued a lengthy decision holding that the appellant was deportable for having been a member of the Communist Party after entry into the United States. In the course of this decision the hearing officer necessarily passed upon the conflict in testimony between appellant and his character witnesses on one hand and the government's witnesses on the other. The hearing officer chose to believe the government's witnesses and credited their testimony that appellant had been a member of the Communist Party and had attended Communist Party meetings with them. Appellant testified that he was not a member of the Communist Party and had never been a member. In arriving at his conclusion, the hearing officer thus indicated his belief that appellant lied and that the government witnesses told the truth.

"It is highly improbable that the testimony of the government witnesses is a fabrication. The

record will not sustain such a determination." (Decision, page 16).

On May 16, 1956, appellant's case was reopened for further hearings in regard to his application for suspension of deportation. The special inquiry officer for the reopened hearing was one and the same John W. Keane who presided as hearing officer in the previous hearings. Counsel for appellant objected in the following language:

" * * * May the record further show that the petitioner until this moment or until this hearing was begun at approximately 9:30 A.M. on this day, we were not advised of who any hearing officer would be or any presiding officer would be, and I was just advised of that when I walked in this room and see we are assigned here. We object to your being the hearing officer here on the ground and for the reason that you have participated in the deportation, and it would be based on your findings and decision on matters in this proceeding that would determine somewhat his right to suspension, so we object to your sitting as a hearing officer in this proceeding on the ground and for the reason that you have heretofore participated in these deportation proceedings."

By the special inquiry officer:

"The objection is overruled." (Tr. 801).

The fact that hearing officer Keane's appraisal of appellant's honesty and veracity affected his decision on his application for suspension of deportation is shown by his order of June 21, 1956, denying suspension of deportation. In said order the hearing officer found that "On the record the respondent has established statutory eligibility and the case is one in which the

Attorney General, or his authorized delegate, may determine whether in the exercise of his discretion suspension of deportation is warranted" (page 3).

The hearing officer then proceeded to analyze the testimony of appellant and characterized it as "evasive" and inferred from such testimony "an attitude from which it might well be inferred that what would be revealed by the answers would not add to alien's desirability as a resident" (page 3).

Finally, the hearing officer concluded:

"Even if his deportation would cause him extreme and unusual hardship and his deportation would result in hardship to his wife and minor child, *on the basis of the entire record* in the respondent's case, the discretionary relief of suspension of deportation should be denied." (Pages 3-4) (Emphasis added).

Thus in his decision as hearing officer in the reopened hearing, Mr. Keane clearly permitted his impressions of appellant gained at the first hearing to sway his judgment in the second hearing. In effect the second hearing was only a matter of formality. Its result was in fact determined before it ever began. Mr. Keane had in effect decided that appellant was a liar and his conclusion could only be that he would not grant suspension of deportation to a liar.

Under these circumstances it is clear that appellant has been denied an elementary aspect of due process of law, namely the right to a hearing before an impartial judge or hearing officer. While the Immigration and Naturalization proceedings have been exempted from

the requirements of the Administrative Procedure Act, nevertheless due process as a constitutional requirement applies to all of the proceedings. *Marcello v. Ahrens*, 212 F2d 830. That Congress itself recognized the necessity for a fair and impartial hearing with respect to deportation matters can be seen from the language in Section 1252(b), Title 8, United States Code, which says in part:

“ * * * No special inquiry officer shall conduct a proceeding in any case under this section in which he shall have participated in investigative functions or in which he shall have participated (except as provided in this subsection) in prosecuting functions.”

Surely the hearing on the application for suspension of deportation, which was designated in the record as “A Reopened Hearing,” must be conducted according to the same standards as a hearing on the original deportation charges. When Mr. Keane made up his mind that appellant was a liar and was deportable he certainly could not pretend to preside at the hearing on suspension of deportation as a wholly impartial special inquiry officer. On the contrary he was as biased as an investigator might have been or someone who performed prosecuting functions. In fact it might be said that he was more biased as a result of weighing the evidence and coming to the conclusion which he did.

For these reasons, appellant was denied due process of law and a fair hearing on his application for suspension of deportation.

IV. THE ORDER DENYING APPELLANT SUSPENSION OF DEPORTATION WAS ARBITRARY, CAPRICIOUS AND AN ABUSE OF DISCRETION, AND OTHERWISE NOT IN ACCORDANCE WITH LAW.

Section 1254(a)(5), Title 8, United States Code, provides the legal basis for suspension of deportation. To obtain the benefits of suspension, an alien is required to establish under this section that he has been a person of good moral character for a continuous period of not less than ten years after the act which allegedly makes him deportable, and that during this time he has not brought himself within one of the deportable classes mentioned in the section. The special inquiry officer found that the appellant met these statutory requirements and in addition the requirement that his deportation would result in "exceptional and extremely unusual hardship."

"On the record the respondent has established statutory eligibility and the case is one in which the attorney general, or his authorized delegate, may determine whether in the exercise of his discretion suspension of deportation is warranted." (Decision of the special inquiry officer, page 3.)

The Board of Immigration Appeals in its decision of November 2, 1956, affirmed the special inquiry officer's findings that suspension be denied. The basis of the Board's action was that the appellant refused to disclose certain information in connection with the Oregon Committee for the Protection of the Foreign Born, an association which was formed to assist defending persons whom the Immigration Service seeks to deport.

As the record will show (commencing with Tr. 848 ff.) the examining officer attempted to inquire as to the officers of the Oregon Committee for the Protection of the Foreign Born and with respect to certain persons apparently connected with it. At the time these questions were put to appellant, counsel for appellant objected to each of the questions and his objection were overruled by the special inquiry officer.

It should be noted that at no time did the special inquiry officer order the appellant to answer any of the questions which were put to him. As a matter of fact, appellant answered a great many questions about the Oregon Committee for the Protection of the Foreign Born but drew the line at mentioning or discussing the names of individuals who might have been connected with it.

We think that it is clear that the special inquiry officer erred in his overruling of the various objections made by appellant's counsel during the course of this questioning and that further, appellant should not be deprived of suspension of deportation because he failed to answer questions which were not pressed by the government.

It has long been established that the order of the Board of Immigration Appeals denying suspension of deportation is judicially reviewable. *McGrath v. Kristensen*, 340 US 162; *Shaughnessy v. Pedreiro*, 349 US 48; *Acosta v. Landon*, 125 F. Supp. 434 (DC Cal, 1954).

The issue on review is whether the Board abused this discretion in denying suspension of deportation.

Certainly one of the hallmarks of abuse of discretion is to deny an alleged alien the benefits of suspension of deportation by reason of his refusal to answer questions which on their face seem in no way relevant to the determination of whether or not he is entitled to suspension. This is certainly true of questions about the Oregon Committee for the Protection of the Foreign Born. There is nothing in the record which would in any way cast doubt upon the legality of the organization, nor any aspects of its program in defense of aliens. If the government implies that any effort to oppose the Immigration Service's determined efforts to deport various individuals to whom it appears to have taken a strong dislike constitutes grounds for denial of suspension of deportation, the government should frankly come forth with this admission. If it has evidence that the Oregon Committee for the Protection of the Foreign Born is an association with which aliens can have contact only at the peril of losing their rights to suspension of deportation, it should so establish its charges by competent evidence.

Instead, the government chooses to take a more devious path. It inquires of an applicant for suspension not only as to the activities of the Oregon Committee but attempts to find out the names of all those with whom the alien is familiar as leaders or members of the group. The implication is clear that when the government finds out these names, it could use them to their disadvantage, especially if they were aliens subject to possible deportation.

Surely appellant's refusal to give these names, and counsel's objections to the questions, on the basis of the record in this case should not be used against appellant in the way which the Board of Immigration Appeals has done.

The test of whether or not the Board of Immigration Appeals abused its discretion in denying suspension to appellant is that of ultimate fairness. On the record in this case it is clear that appellant has been denied this fairness and for this reason the order denying suspension of deportation should be reversed.

V. APPELLANT IS NOT A PERSON SUBJECT TO DEPORTATION BECAUSE THERE IS NO SUBSTANTIAL, PROBATIVE OR REASONABLE EVIDENCE UPON WHICH A FINDING THAT APPELLANT WAS A MEMBER OF THE COMMUNIST PARTY AFTER ENTRY INTO THE UNITED STATES CAN BE BASED. THE EVIDENCE SUPPORTING DEPORTABILITY IS INSUFFICIENT UNDER ROWOLDT V. PERFETTO, 355 US 115.

In *Galvan v. Press*, 347 US 522, the Supreme Court described the test to be applied in determining whether membership in the Communist Party had been established for the purpose of deportation. The Court said there must be substantial evidence for a finding that an alien committed himself to the Communist Party "aware that he was joining an organization known as the Communist Party which operates as a distinct and active political organization, and that he did so of his own free will." 347 US 522, 528.

Thereafter, the Board of Immigration Appeals considered any proof of membership in the Communist Party as sufficient to sustain an order of deportation.

Matter of G., File No. 4-524774. The Board deemed adequate for this purpose the testimony of paid witnesses that an alien had been seen at closed Communist Party meetings, and that he had been observed paying dues. No further evidence was thought necessary to sustain an order of deportation.

But in *Rowoldt v. Perfetto*, 355 US 115, the Supreme Court reiterated the test laid down in *Galvan* and went further by requiring an order of deportation be supported by "substantial" proof that an alien had a "meaningful association" not wholly devoid of "political implications." In *Rowoldt*, the alien admitted having been a member in the Communist Party for about a year; that he attended Communist Party meetings, and paid membership dues. Rowoldt, furthermore, worked in a Communist Party bookstore in which Communist and Marxist literature was sold. He demonstrated a high degree of knowledge about Communism and the history of the Russian revolution. He testified that his reason for joining the Communist Party was his concern to improve economic conditions during the depression.

Section 1252(b)(4) of Title 8, United States Code, demands that "no decision of deportability shall be valid unless it is based upon reasonable, substantial and probative evidence."

The harsh penalty of deportation should, of course, never be imposed if the government's evidence is weak or merely a *prima facie* case. Indeed, the conventional requirement that administrative orders be supported by "substantial" evidence is changed in this act by adding

the further requirements that such evidence be "reasonable" and "probative." This means that the evidence must not only be substantial, that is, sufficient to carry the case to a jury under the conventional common law test of a *prima facie* case, but also "reasonable," that is, in the eyes of the reviewing court believable, truthful, and in all respects completely satisfying as to the alleged facts.

This much cannot be said for the evidence produced by the government in this case. Mr. Lee A. Knipe was the first witness for the government (Tr. 13). He testified that he had seen appellant at closed meetings of the Communist Party, of which he was also a member (Tr. 14-15). Knipe also testified that he had seen appellant at a Communist Party school for the purpose of electing one James Murphy state senator in 1938 (Tr. 17). On cross-examination Knipe admitted that he had never seen appellant's Communist Party membership book and had never seen him pay any dues to the Communist Party (Tr. 18). He also testified that on previous occasions during twelve days immediately preceding the hearing, he had testified in other cases of this sort (Tr. 18). His memory about the details of the Communist Party meetings at which he allegedly saw appellant seems very vague indeed (Tr. 19-20). Finally he testified that he had never seen MacKay circulate any literature of any kind (Tr. 21).

The government's next witness was Irene Mahoney, who was previously Irene Knipe, wife of witness Lee A. Knipe (Tr. 27). She also testified that she knew appellant to be a member of the Communist Party

and had seen him at party meetings. She was unable to testify as to any of appellant's other alleged activities in the Communist Party. On cross-examination (Tr. 27-90) Mrs. Mahoney showed an amazing lack of recollection of the most obvious facts of her life during the time she claimed to know appellant as member of the Communist Party. As a matter of fact, it is remarkable indeed that she definitely remembered that appellant was a member of the Communist Party, although she was able to add little else about this relationship. Yet she forgot a vast number of dates, her employments, her residences, and people during this same period of time. After reading her testimony in full, one can only conclude that she was wholly unreliable in her testimony and it should be discounted in full.

The third government witness was Robert McClure Hood, who testified that he had joined the Communist Party in 1940 (Tr. 442) and remained a member until about March 1942 (Tr. 442). He testified that he joined at the instigation of an officer of the Portland Police Department (Tr. 443). He stated that he was a paid spy for the police department (Tr. 444) and that he made his living in this way (Tr. 444). He testified that he was also active in the Workers' Alliance.

He stated he had seen Hamish Scott MacKay at Communist Party meetings and that he did not hold any office in the Albina Branch of the Communist Party to which Hood belonged (Tr. 452). He also recalled a particular meeting where appellant was present where there was a discussion as to how the Communist Party was backing the war effort of the Soviet Union (Tr. 454).

In sum and substance the testimony of Hood amounts only to the charge that appellant had attended meetings of the Communist Party. It does not shed any light upon his motives or his possible interest in joining the Communist Party.

The last witness produced by the government was Sylvia N. Sivertson, the former wife of appellant. Mrs. Sivertson and the appellant were married December 30, 1933, and he obtained a decree of divorce in 1944. She testified that appellant had been a member of the Communist Party since 1935 and that she went with him to Communist Party meetings, usually at friends' homes. She also testified that she herself had been a member of the Communist Party and had paid dues to it. She testified she knew Lee A. Knipe and Irene Mahoney and that she did not remember Robert McClure Hood. On cross-examination Mrs. Sivertson admitted the appellant obtained the divorce and was awarded the care and custody of their minor children (Tr. 764). She also admitted that she had been doing a great deal of drinking but claimed that it was arguments about the Communist Party that lead to this (Tr. 763, 765). She admitted that she had been arrested in Portland on charges of being drunk and was confined to jail (Tr. 766). Although she claimed to have been active in the Communist Party with her husband, she was unable to remember any of the details as to leaflets and literature she claimed to have helped distribute (Tr. 773).

The appellant's witnesses Gladys Nelson, Carl Nelson, and Dorothy MacKay all testified that Mrs. Sivert-

son drank excessively and was not a truthful person (Tr. 782-792).

Appellant himself testified (Tr. 792-797) that his former wife, Sylvia N. MacKay Sivertson, was divorced because of her excessive use of intoxicating liquor and her desire to run around (Tr. 792). He claimed that the so-called Communist Party meetings which she testified they both attended were instead meetings of the Workers' Alliance and International Labor Defense (Tr. 794).

It seems apparent from the record that there is a strong motive for Mrs. Sivertson to lie about appellant's alleged connections with the Communist Party. That motive, pure and simple, is revenge. She simply wished to get even with appellant for obtaining a divorce from her and the custody of the children.

In light of the witnesses who were called to impeach her veracity, her testimony cannot be viewed as creditable or in any way sufficient upon which to base a finding of deportation.

Thus when the government's case is analyzed and the testimony of the government witnesses looked at critically, instead of being accepted as one hundred per cent truthful as the Board of Immigration appeals and the special inquiry officer did, it can be readily seen that no substantial, reasonable, or probative evidence was produced so as to warrant the extreme penalty of deportation to be inflicted against the appellant. On the contrary, we believe that justice requires a reversal of the District Court's order.

CONCLUSION

Appellant believes he is not an alien and is therefore not subject to deportation. If he is, in any case, the statute under which the government seeks to deport him is unconstitutional and should be so declared. Even under the statute, the government has not proven its case by substantial, reasonable, and probative evidence that he was a member of the Communist Party within the meaning of that term as interpreted by the United States Supreme Court. Finally, the record is clear that appellant has been denied a fair hearing on his application for suspension of deportation by reason of the hearing officer being one and the same person who had previously ordered him to be deported. The hearing officer's denial of suspension of deportation and its affirmance by the Board of Immigration Appeals was abuse of administrative discretion and is not supported by the record.

The order of the District Court should be reversed with instructions to grant the relief prayed for in the appellant's amended petition for Writ of Habeas Corpus and Injunctive Relief to Prevent Agency Action.

Respectfully submitted,

NELS PETERSON,
GERALD H. ROBINSON,
Attorneys for Appellant.

EXHIBITS ADMITTED INTO EVIDENCE

Exhibit No.	Offered	Admitted
1	R. 102	R. 102
15 (of Immigration Service hearing)	R. 103	R. 103

NO. 16148

United States
COURT OF APPEALS
for the Ninth Circuit

HAMISH SCOTT MacKAY,

Appellant,

v.

EUGENE D. McALEXANDER, Acting District Director,
District 31, Immigration and Naturalization
Service,

Appellee.

APPELLEE'S BRIEF

*Appeal from the United States District Court
for the District of Oregon.*

FILED

MAR 14 1959

C. E. LUCKEY,
United States Attorney,
District of Oregon,
VICTOR E. HARR,
Assistant U. S. Attorney,
Attorneys for Appellee.

PAUL P. O'BRIEN, CLERK

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United States
COURT OF APPEALS
for the Ninth Circuit

HAMISH SCOTT MacKAY,

Appellant,

v.

EUGENE D. McALEXANDER, Acting District Director,
District 31, Immigration and Naturalization
Service,

Appellee.

APPELLEE'S BRIEF

*Appeal from the United States District Court
for the District of Oregon.*

JURISDICTIONAL STATEMENT

The jurisdiction of the District Court was invoked under 28 USC § 2241 and 5 USC § 1009. The jurisdiction of the Court of Appeals is invoked under 28 USC §§ 2253 and 1291.

This is an appeal from an Order of the United States District Judge for the District of Oregon dismissing appellant's Amended Petition for Writ of Habeas Corpus and Complaint for Injunctive Relief

to Prevent Agency Action, discharging the Writ of Habeas Corpus theretofore issued and remanding the appellant to the custody of Eugene D. McAlexander, then Acting District Director, Immigration & Naturalization Service, United States Department of Justice, to be held for deportation, pursuant to the Warrant and Order of Deportation previously issued (R. 58).*

STATEMENT OF THE CASE

While the statement of facts in appellant's brief is substantially correct insofar as set forth, certain other important facts as they pertain particularly to the issues urged in appellant's first round through the courts (*MacKay v. Boyd*, 9 Cir. 1955, #13841, 218 F.2d 666; cert. den. (1955) 350 U.S. 840; reh. den. (1956) 351 U.S. 929), when compared to the propositions urged in the within cause, together with a brief summary of the testimony upon which the deportability of appellant has been based, materially alter the questions presented in appellant's brief.

The appellant is an alien, having been born in Canada on June 10, 1905. He last entered the United States on or about November 24, 1928 (not in 1958, App. Br. 2).

The evidence as to appellant's membership in the Communist Party was established by the testimony of

* As in appellant's brief, "(R.....)" herein refers to the printed record of the proceedings in the United States District Court, and "(Tr.....)" refers to Exhibit 1 of the typewritten transcript of the hearings before the Immigration & Naturalization Service.

four witnesses: Lee A. Knipe, Irene Mahoney, Robert McClure Hood and Sylvia Maria Sivertson, all of whom participated actively in the Communist Party functions in the Albina Branch at Portland, Oregon, of which appellant was a member.

Knipe testified that he was a member of the Communist Party in Portland from 1937 to 1940 (Tr. 14). He was Educational Director of the Albina Branch. He and appellant had been selected by the Executive Board of the Albina Branch to attend Communist Party schools and training classes (Tr. 15), the instructors being Jim Murphy, State Organizer of the Communist Party, and Andy Reams, Educational Director of Communist Party, State of Washington (Tr. 16). Meetings were held for the purpose of electing James Murphy, who was running on the Communist Party ticket, to the State Senate (Tr. 17). Appellant attended closed meetings of the Communist Party (Tr. 17, 18), where only known Communists attended (Tr. 18).

Irene Mahoney, formerly Mrs. Lee A. Knipe, was a member of the Albina Branch of the Communist Party from 1938 through 1940 (Tr. 22) and attended closed meetings open only to members of the Party (Tr. 23) and appellant attended four or five of these meetings when she was present (Tr. 24).

Robert McClure Hood joined the Communist Party in November 1940 and remained a member until he was expelled in March 1942 (Tr. 442). He attended closed Party meetings at which appellant was present (Tr. 445). After reading Communist Party literature

setting forth its dangerous aims, he went to the police (Tr. 474). The witness first met appellant at a meeting of the Workers Alliance (Tr. 441) and thereafter became well acquainted with appellant.

Sylvia Marie Sivertson was a former wife of appellant, having married him in 1933, and they were divorced in 1944 (Tr. 748). Appellant had been a member of the Communist Party and he prevailed upon her to join the Party in 1935 (Tr. 750). Thereafter they attended Communist Party meetings together (Tr. 751). For approximately six months she was Secretary of the Albina Branch where she collected Communist Party dues, including dues from the appellant (Tr. 752). Appellant was active in the solicitation of new members by stenciling "Join the Communist Party" on the sidewalks (Tr. 752, 753), direct solicitation, and distribution of leaflets put out by the Party (Tr. 758, 759). Appellant was active in discussing Communism with people (Tr. 753), which continued through 1943 when both she and appellant were employed in the shipyards (Tr. 755). They together attended Communist Party schools, the purpose of which was to teach members "Russian history and everything in regard to the Communist Party work—and the fundamentals of Communism, Marxism and Leninism." Textbooks were used for study (Tr. 757).

In appellant's first Petition for Writ of Habeas Corpus which formed the basis for appellant's first appeal, hereinbefore mentioned, he did not raise the question of citizenship, but he did raise the question of fairness and impartiality of the hearings, and the suf-

iciency of the evidence, claiming that the finding that he was a Communist was false and without a basis in fact. He also challenged the constitutionality of the statutes under which he was charged, alleging that they amounted to bills of attainder and *ex post facto* laws. From an adverse decision of the court below, appellant appealed, and this Court of Appeals in *MacKay v. Boyd*, *supra*, held *per curiam* that there was abundant evidence to support the contention that he was a member of the Communist Party.

Pursuant to appellant's motion to reopen the hearing for the purpose of filing an Application for Suspension of Deportation, a rehearing was held on May 16, 1956, and on June 21, 1956, the Hearing Officer denied appellant's Application for Suspension of Deportation on the ground that the petitioner refused to answer questions regarding membership in various organizations, including the "Committee for Protection of Oregon Foreign Born," as did his wife (Tr. 848, 851-855, 870). The Hearing Officer, in his report on June 21, 1956, at page 3, noted that: "In fact, many of the respondent's answers were evasive. He has elected to stand mute and refused to disclose information which is material to a determination as to whether he merits suspension of deportation." Upon appeal the Hearing Officer's determination was sustained and the appeal dismissed.

Subsequently, on March 5, 1958, petitioner again appealed to the Board of Immigration Appeals, requesting reconsideration of its determination of deportability on the basis of the decision of *Rowoldt v. Perfetto* (1957) 355 U.S. 115. Upon dismissal of this appeal,

appellant on June 18, 1958 filed the within Petition for Writ of Habeas Corpus and Complaint for Injunctive Relief to Prevent Agency Action. In this petition and complaint, appellant again urged all of his prior contentions previously adjudicated by this court and in addition questioned appellant's deportability in view of the decision of the United States Supreme Court in *Rowoldt, supra*. Appellant further contended that the hearing on his Application for Suspension of Deportation was unfair in that the Hearing Officer was biased and prejudiced and was not impartial because he had acted as Hearing Officer in the original proceedings, and that the Order Denying Suspension of Deportation was arbitrary, capricious, and an abuse of discretion. After the hearing in the United States District Court for the District of Oregon, appellant filed his Amended Petition for Writ of Habeas Corpus and Complaint for Injunctive Relief to Prevent Agency Action, claiming for the first time to be a citizen of the United States as a basis for relief.

The District Court below, on August 15, 1958, having dismissed the petition and complaint on its merits, discharged the writ and remanded appellant to the Immigration & Naturalization Service to be held for deportation, pursuant to the Warrant and Order of Deportation previously issued.

On August 18, 1958, appellant filed a Notice of Appeal from this Order.

ISSUES

Appellee does not agree that there are properly before this court all of the issues as set forth by appellant (App. Br. 4, 5).

Appellee contends the only issues before this court are:

1. Was appellant afforded a fair hearing on his Application for Suspension of Deportation before the Immigration & Naturalization Service, Department of Justice?

2. Was the Order Denying Suspension of Deportation of appellant arbitrary, capricious and an abuse of discretion and otherwise not in accordance with law?

3. Is appellant a citizen of the United States and not subject to deportation?

4. Was the issue of the constitutionality of the Act of October 16, 1918, 40 Stat. 1012, as amended, fully adjudicated in appellant's earlier appeal, *MacKay v. Boyd*, *supra*, and therefore final?

5. Was the issue as to whether or not there was substantial, probative and reasonable evidence upon which the Immigration & Naturalization Service based its order of deportation upon membership of appellant in the Communist Party of the United States, fully adjudicated in the case of *MacKay v. Boyd*, *supra*, and therefore final?

APPELLANT'S PROPOSITION I

The District Court did not Err in Failing to Declare Unconstitutional the Act of October 16, 1918, as amended, now 8 USC § 1251(a)(6)(c), or in particular that the Act is Unconstitutional as being a Bill of Attainder.

This contention has been repeatedly passed upon by this and other courts. The same grounds were urged by appellant in his first round through the courts in *MacKay v. Boyd*, *supra*, where the decision of the court below was by this court affirmed *per curiam*. The identical grounds were also raised in the case of *Niukkanen v. Boyd*, 9 Cir. 1957, #15061, 241 F.2d 938; cert. den. (1957) 355 U.S. 905. Appellant in fact, at the very outset of his brief, page 6, admits that this proposition has been foreclosed by this court because of the decisions of the Supreme Court in *Harisiades v. Shaughnessy* (1952) 342 U.S. 580, and *Galvan v. Press* (1953) 347 U.S. 522. The decisions aforesaid were final and determinative of this issue. *Cruz-Sanchez v. Robinson*, 9 Cir. 1957, 249 F.2d 771. See also, *Rystad v. Boyd*, 9 Cir., 246 F.2d 246; cert. den. (1957) 355 U.S. 912; reh. den. (1958) 355 U.S. 967.

But counsel urges that the Supreme Court of the United States has not specifically ruled on the validity of the Act as it pertains to this class of case as constituting a bill of attainder. There is no reason to believe that the Supreme Court did not consider this contention in either the *Galvan* or *Harisiades* case. As Judge Solomon stated in his Memorandum Opinion in the

case of *Niukkanen v. Boyd*, *supra*, presently on appeal before this court, being Case No. 15061:

“There is no merit in the contention that the Act is a bill of attainder. Although Mr. Justice Black in his dissenting opinion in *Galvan v. Press*, 347 U.S. 522, 533, mentioned this possibility, it is apparent that he did not believe that such provisions constituted a bill of attainder, and the majority opinion sustained the order of deportation.”

APPELLANT'S PROPOSITION II

The District Court did not Err in Determining that Appellant was an Alien; that his Father was not an American Citizen at the time Appellant was Born and that Appellant is Subject to Deportation.

At the outset of the Immigration hearings and up to the time of the filing of an amended petition, appellant conceded that he was an alien. The government's proof was thereby supported and no further proof was necessary beyond the admissions of appellant himself. Since appellant has now raised the claim of citizenship by derivation, that is, through the claim that his father, James Scott MacKay, was a citizen of the United States at the time appellant was born in Canada, it became incumbent upon the government to establish that appellant was not, in fact, a citizen of the United States.

In the case of *Brader v. Zurbrick*, 6 Cir. 1930, 38 F.2d 472, it is stated that “Where claim of petitioner is not merely colorable, the claimant is entitled to a judicial hearing.” The government's burden therefore

was to show either (1) that James Scott MacKay was a naturalized citizen of Canada and a subject of Her Britannic Majesty as a British subject at the time of appellant's birth; or (2) that appellant's father expatriated himself thereby losing his United States citizenship prior to appellant's birth in Canada. See *Riley v. Howes*, 1 Cir. 1928, 24 F.2d 686.

Concededly, appellant was born in Canada in 1905 and, concededly, his father had acquired a certificate of naturalization issued by the Canadian courts prior to appellant's birth (Ex. 15 Imm. File (referred to as Petitioner's Ex. 15, R. 103) Offered, Tr. 746; Admitted by Hearing Officer, Tr. 747). However, appellant contends that his father's naturalization in Canada was defective and that he consequently never lost his status as a naturalized citizen of the United States.

Naturalization in a Foreign State. At least since 1868 (R.S. § 1999), our laws have recognized the right of voluntary expatriation both by native-born and naturalized citizens. Even in the absence of any direct statutory provision, a citizen of the United States unquestionably lost his American citizenship by procuring naturalization in a foreign state, particularly when such naturalization was accompanied by a change of domicile. Both the majority and minority opinions in the Supreme Court's recent decision in *Terez v. Brownell* (1958) 356 U.S. 44, agreed that the voluntary acceptance of foreign allegiance through naturalization was the most obvious method of casting off United States citizenship. See also *Savorgnan v. U. S.* (1950) 338 U.S. 491. See also, 9 Op. Atty. Genl. 62:

"In my opinion, if he emigrates, carries his family and effects with him, manifests a plain intention not to return, takes up his permanent residence abroad, and assumes the obligation of a subject to a foreign government, this would imply a dissolution of his previous relations with the United States, and I do not think we could or would afterwards claim from him any of the duties of a citizen."

The Court in *In re Look Tin Sing*, Cir. Ct. D. Calif. 1884, 21 F. 905, quoted this Opinion of the Attorney General with approval and stated, "The doctrine thus stated has long been received in the United States as a settled rule of public law; . . ."

Consequently, at the time of MacKay's birth in Canada in 1905, his father had lost the status he had acquired as a naturalized American Citizen by virtue of his obtaining naturalization in Canada. As a Canadian, he obviously could not transmit United States citizenship to his son. Moreover, MacKay did not acquire United States citizenship through his mother. Even assuming that the mother retained United States citizenship following her establishment of foreign residence and her husband's naturalization in Canada, which at best is extremely doubtful, the mother could not confer United States citizenship at birth upon the child born in Canada. *In re Wright*, E.D. Pa. 1937, 19 F. Supp. 224, and cases there cited and discussed. Revised Statutes § 1993 then authorized transmission of American citizenship at birth abroad only when the father was an American citizen at the time of the child's birth. Since his father was an alien at the time

of his birth in 1905, MacKay was born an alien. *Wolf v. Brownell*, 9 Cir. 1957, 253 F.2d 141; cert. den. (1958) 357 U.S. 942.

Compliance with Canadian Requirements. At this late date, MacKay suddenly purports to discover that his father's Canadian naturalization was irregular because he believes his father had not resided in Canada for three years when he sought and was granted naturalization. In this regard, appellant on March 2, 1951, testified as follows:

"Well, I understand that my dad went to Canada in 1903 and therefore he couldn't have been a resident of Canada for three years." (Tr. 745)

The present claim therefore seems quite far-fetched after the lapse of 53 years, during which the father and MacKay both regarded themselves as Canadian citizens and subjects of Great Britain.

This is clearly a collateral attack on appellant's father's naturalization in Canada. There has been no attempt to show that Canadian administrative or judicial authorities ever sought to revoke the father's naturalization. Under such circumstances, the courts of the United States could not be called upon to nullify the naturalization as granted in Canada.

Christie v. British American Oil Co., determined by the Manitoba Court of Appeals (1953) 8 WWR (NS) 714; aff. 8 WWR (NS) 39; 2 DLR 598 (Man. C. A.); aff. (1954) SCR 111, 2 DLR 65, pertains to a warrant issued out of a court for execution on certain shares of stock. Plaintiff claimed that the order and warrant

involved were nullities. The court said that the place to settle the illegality was in the Ontario courts where seizure was made and that a judgment or order cannot be treated as a nullity when attacked in a collateral proceeding unless the want of jurisdiction to make it is obvious on its face. See also *Tufts v. Thompson* (1929) 1 WWR 329, 24 CAN. Abr. 1174 (Man. C.A.); *Caldwell R.M. v. Children's Aid Society of St. Abellard* (1929) 1 WWR 323, 24 CAN. Abr. 1165 (Man. C. A.). In *R. E. Solvang*, 43 DLR 549, the court quoted *Piggott's Nationality*, Part 1, p. 203, as follows:

"The decree on the petition, whether it be legitimacy or illegitimacy, of validity or invalidity of marriage, of the right or absence of right to be deemed a British subject is, from its nature, a judgment of status, and, as such, entitled to universal recognition.

* * *

"He means, of course, that according to international comity, judgments as to status rendered in the court of the domicile are accepted by all foreign courts . . ."

In this connection see also, the case of *Tutun v. U. S.* (1926) 270 U.S. 568, 577, in which a Federal District Court denied a petition of an alien to be admitted to citizenship in the United States and said:

". . . that upon such hearing the applicant and witnesses shall be examined under oath before the court and in its presence; and that every final order must be made under the hand of the court and shall be entered in full upon the record. The judgment entered, like other judgments of a court of record, is accepted as complete evidence of its own validity unless set aside. *Campbell v. Gordon*, 6 Cranch 176; *Spratt v. Spratt*, 4 Pet. 393, 408.

It may not be collaterally attacked. *Pintsch Compressing Co. v. Bergin*, 84 Fed. 140. If a certificate is procured when the prescribed qualifications have no existence in fact, it may be cancelled by suit."

Hence, it would appear that it was appellant's duty, if such a duty there existed, to take direct proceedings in Canada if appellant's father obtained the certificate through illegal or fraudulent means and have the same vacated, annuled and set aside. He cannot collaterally attack the determination of the Canadian courts in this proceeding. It would seem to be the duty of this court to give full faith and credit to the determination of the court in Canada admitting appellant's father to citizenship in that foreign state.

An order admitting an alien to citizenship has been repeatedly declared to be a judgment of the same dignity as any other judgment of a court having jurisdiction. It is an adjudication on personal status. Under such circumstances, it seems fanciful to assert that a court in this country can disregard a naturalization granted in Canada in 1905, merely on the basis of a belated assertion that the applicant then had not fully met the requirements established by Canadian law. Since the naturalization edict in Canada was never rescinded, it fully attests status as a Canadian citizen. See *Tutun v. U. S.*, *supra*, at 577; *Spratt v. Spratt* (1830) 4 Pet. 393, 408, 7 L.Ed. 897.

Expatriation. In the court below, the government urged, and we now renew the contention, that even if the court should determine that appellant's father

had not become a naturalized Canadian citizen, he nevertheless lost his United States citizenship by expatriation, in taking the oath of allegiance prior to appellant's birth.

Since Canada is one of the Dominions of Great Britain, the oath of allegiance would have been to Her Majesty, the Queen of the United Kingdom of Great Britain and Ireland. We contend that irrespective of the residential requirements to enable appellant's father to become a citizen of Canada, the mere taking of the oath in and of itself would place upon him "duties and obligations absolutely inconsistent and at war with the duties he owes the home country and government he left, and he has also shown an unequivocal intent to remain abroad." *Ex parte Griffin*, N.D. N.Y. 1916, 237 F. 445, 451.

Appellant, however, contends that to expatriate a citizen of the United States would render him stateless and would be in violation of the treaty between the United States and Great Britain (App. Br. 13). In this regard, see *Ex parte Griffin, supra* where Griffin, a citizen of the United States, went to Canada and there enlisted in the armed forces of a foreign power and took the oath of allegiance to the King of Great Britain, and although Griffin in that case deserted within a few days and returned to the United States, he was declared to be an alien of the United States even though he had here not become a citizen of Canada and a subject of Great Britain. In that case, the court further stated (p. 450):

"Expatriation is the voluntary loss or abandonment, or, more properly speaking, renunciation, of citizenship. This may be a completed act, and complete in its effect as to the status of a person, even if he has not become naturalized in some other country according to its laws. Persons born in the United States, subject to its jurisdiction, are citizens of the United States. If one of these persons goes to England and is there naturalized, he becomes a citizen of England, regardless of the wishes or consent of the United States. He is exercising a natural and an inherent right, says the Congress of the United States. In such case he loses his citizenship in the United States on becoming a naturalized citizen of England. This is distinguished from expatriation, which may consist solely in the abandonment and renunciation of citizenship in the United States, without being naturalized in some other country. Of course, a citizen of the United States expatriates himself when he voluntarily goes to England, and there applies for citizenship and becomes naturalized. He has not only abandoned, but renounced, his citizenship in the United States, and become a citizen of another country. . . . Expatriation is renouncing allegiance to one's own government, accompanied usually by forsaking his own country.

* * *

"It follows that Griffin, the petitioner, not only expatriated himself under the statute of the United States, but by his oath changed his allegiance to that of the kingdom of Great Britain and Ireland, and necessarily renounced his allegiance to the United States, and at least took the preliminary steps to become a naturalized citizen of England. (p. 457)

* * *

"Does taking an oath of allegiance to a foreign power constitute expatriation? It was not a new question. See Case of J. F. Bowler, which arose in 1895, and communication of Secretary of State

Gresham in reference thereto, Foreign Relations, 1895, page 853, and VanDyne, Citizenship of the United States, 280. Secretary Gresham said:

“‘The oath is inconsistent with his allegiance to the United States. By taking it he obligated himself to support the government of his adoption, even to the extent of fighting its battles in the event of war between it and the government of his origin. He could not bear true allegiance to both governments at the same time.’” (p. 458)

APPELLANT'S PROPOSITION III

The District Court did not Err in Refusing to Hold that Appellant was not Afforded a Fair Hearing on His Application for Suspension of Deportation.

The only basis for this contention by appellant is that the Hearing Officer, following the first hearing, had determined the matter adversely to appellant and “. . . had in effect decided that appellant was a liar and *his conclusion could only be that he would not grant suspension of deportation to a liar*. Under these circumstances it is clear that appellant has been denied an elementary aspect of due process of law, namely the right to a hearing before an impartial judge or hearing officer.” (App. Br. 17) (Emphasis added)

This broad, sweeping statement, without some specific showing as a basis for it, should hardly merit an answer thereto. A reading of the record, including the pages referred to on page 3 of the Hearing Officer's report, conclusively shows appellant's evasiveness and his refusal to answer questions within the legitimate area

of the inquiry and justified the Hearing Officer's refusal to treat him as deserving of discretionary relief. The Hearing Officer found that appellant's refusal to answer was not warranted and that it might well be inferred from his refusal that a complete disclosure of the facts would not add to the alien's desirability as a resident. Particularly in point is the case of *Jimenez v. Barber*, 9 Cir. 1958, 252 F.2d 550, where the court said:

"Here, the refusal to answer questions was in a proceeding in which the applicant sought nothing to which he was entitled as a matter of right. He asked only for an act of grace, dependent upon an official exercise of sound discretion. The hazards in adopting an obstructive attitude in such a proceeding must be at least as great as those involved in cases where established rights are sought to be enforced or protected." (p. 554)

Since suspension of deportation is a matter of grace, courts will not review its denial unless the ground stated is on its face insufficient.

APPELLANT'S PROPOSITION IV

The District Court did not Err in Refusing to Find the Order Denying Appellant's Suspension of Deportation was Arbitrary, Capricious and an Abuse of Discretion, and Otherwise not in Accordance with Law.

In the first paragraph of appellant's brief, page 19, after summarizing the basis under which appellant be considered for suspension of deportation under 8 USC § 1254(a)(5), he states:

"The special inquiry officer found that the appellant met these requirements and in addition the

requirement that his deportation would result in 'exceptional and extremely unusual hardship.' "

This is not quite correct. What the Special Inquiry Officer determined was that appellant was statutorily eligible for *consideration* of suspension of deportation. More particularly, the Act specifies that the Attorney General, under Part (c) of said section, *may* suspend the deportation of a deportable alien who meets the prerequisites set out in the Act.

The cases are legion and for the most part are uniform in applying the narrow scope of judicial review of agency action denying suspension of deportation. In *Arakas v. Zimmerman*, 3 Cir. 1952, 200 F.2d 322, 324, in the course of commenting upon the ultimate decision in *Bauer v. Shaughnessy*, Civil 50/217, S.D. N.Y. 1950, the following language was quoted with approval:

" . . . the decision of the Attorney General in refusing discretionary relief to a deportable alien is not subject to judicial review at least where the ground stated for the refusal is not 'on its face insufficient.' *United States ex rel Kaloudis v. Shaughnessy*, 180 F.2d 489."

The Supreme Court of the United States, in the case of *Jay v. Boyd* (1956) 351 U.S. 345, has gone a considerable distance beyond the previous authorities. There, the denial of an application for suspension, based on the use of confidential information by the Board of Immigration Appeals, was sustained by a sharply-divided court. Not confined to the matter of the use of undisclosed information, however, is the following statement in that case—which unmistakably governs this court as to the present problem (p. 353):

"Eligibility for the relief here involved is governed by specific statutory standards which provide a right to a ruling on an applicant's eligibility. However, Congress did not provide statutory standards for determining who, among qualified applicants for suspension, should receive the ultimate relief. That determination is left to the sound discretion of The Attorney General. The statute says that, as to qualified deportable aliens, The Attorney General 'may, in his discretion' suspend deportation. It does not restrict the considerations which may be relied upon or the procedure by which the discretion should be exercised. Although such aliens have been given a right to a discretionary determination on an application for suspension, cf. *Accardi v. Shaughnessy*, 347 U.S. 260, a grant thereof is manifestly not a matter of right under any circumstances, but rather is in all cases a matter of grace. Like probation or suspension of criminal sentence, it 'comes as an act of grace,' *Escoe v. Zerbst*, 295 U.S. 490, 492, and 'cannot be demanded as a right,' *Berman v. United States*, 302 U.S. 211, 213. And this unfettered discretion of The Attorney General with respect to suspension of deportation is analogous to the Board of Parole's powers to release federal prisoners on parole."

But appellant urges (App. Br. 20) that the Special Inquiry Officer erred "... in his overruling of the various objections made by appellant's counsel during the course of this questioning and further, that appellant should not be deprived of suspension of deportation because he failed to answer questions which were not pressed by the government." A reading of the record, including the pages referred to on page 3 of the Special Inquiry Officer's report conclusively shows appellant's evasiveness and his refusal to answer questions within the legitimate area of the inquiry and justified the of-

ficer's refusal to treat him as deserving of discretionary relief. *Jimenez v. Barber*, 9 Cir. 1956, 235 F.2d 922, cert. den. 355 U.S. 903. Appellant was in this proceeding seeking relief from deportation. It was incumbent upon him to make a full and frank disclosure of all matters bearing upon his loyalty, good moral character and the desirability of granting him the right to become a lawful, permanent resident of this nation. His activities, the organizations to which he belonged or the principles with which he was in sympathy and the individuals with whom he maintained an association, were all open to inquiry. Appellant cannot now take refuge behind a situation of his own making. He should not now be heard to complain that the Special Inquiry Officer did not "... order the appellant to answer any of the questions which were put to him," or "... because he failed to answer questions which were not pressed by the government."

It is conceded that the order of the Board of Immigration Appeals Denying Suspension of Deportation is judicially reviewable; however, in the absence of a clear showing that the Attorney General abused the discretion vested in him to grant or deny suspension of deportation, the court has no power to interfere with the determination. There has been no showing in this case that the hearing was in any respect unfair or that the order denying suspension was arbitrary, capricious or an abuse of discretion.

APPELLANT'S PROPOSITION V

The District Court did not Err in Determining that Appellant was Subject to Deportation Based Upon Substantial, Probative and Reasonable Evidence that Appellant was a Member of the Communist Party, nor did the Court Err in Determining that the Decision of *Rowoldt v. Perfetto* was not in Point.

Appellant would have this court again reevaluate the evidence adduced at the deportation hearing and to redetermine whether or not the agency's findings were based upon reasonable, substantial and probative evidence. Their position is that they are entitled to the reconsideration of these issues by virtue of the *Rowoldt* decision. The government contends that these issues have been fully determined on appellant's first round through the courts in *MacKay v. Boyd*, *supra*, where this court said:

"The ground of MacKay's appeal is that the evidence fails to sustain the finding that he is an alien and so became a member of that party. We find abundant evidence in the testimony of MacKay's wife and other witnesses to sustain the finding."

Appellant's petition for certiorari to the Supreme Court was denied. Counsel however theorizes that by virtue of *Rowoldt* a somewhat different yardstick would apply and that stronger evidence is now necessary to justify a determination of "meaningful association". We do not agree with any such theory. In *Schleich v. Butterfield*, 6 Cir. 1958, 252 F.2d 191; cert. den. (1958) 358 U.S. 814, the court said:

"Rowoldt v. Perfetto did not change the law with respect to the proof necessary to show membership in the Communist Party. *Galvan v. Press* was recognized as the controlling authority. The different ruling was the result of different factual situations. The court closed its opinion in the Rowoldt case by saying, 'The differences on the facts between *Galvan v. Press*, supra, and this case are too obvious to be detailed.' (p. 194)

* * *

"Certainly, there is nothing in the record to show that he did not join the Party of his own free will or that he was mistaken about the nature and purposes of the Party at the time of joining and thereafter. His years of membership and active participation in organization work compel the opposite conclusion.

"In our opinion, the foregoing evidence was sufficient to establish the 'meaningful association' with the Party, referred to in the Rowoldt case, and to show that Schleich joined the Party, aware that he was joining an organization known as the Communist Party which operated as a distinct and active political organization and that he did so of his own free will, which, according to the rule laid down in *Galvan v. Press*, supra, 347 U.S. 522, 528, 74 S.Ct. 737, 98 L.Ed. 911, was enough to constitute him a 'member' within the terms of the Act."

Schleich's Petition for a Writ of Certiorari, which was denied, embraced the following question: "Whether this court should reconsider its decisions in *Galvan v. Press*, 347 U.S. 522, and *Marcello v. Bonds*, 349 U.S. 302."

It would therefore appear that the *Rowoldt* decision was entirely within the framework of the test to be applied as set forth by the Supreme Court in *Galvan v. Press*. Since there was no different standard of proof set up in the *Rowoldt* case it is obvious that the Supreme

Court, in denying certiorari in *MacKay v. Boyd, supra*, considered that MacKay had "meaningful association" by virtue of the length of his membership in the Party, its duration, its continuance during a time of prosperity, his attendance at Communist Party schools and meetings, the purpose of which was to teach members Russian history and fundamentals of Communism, Marxism and Leninism and that it was reasonable to conclude that his membership was with knowledge of the fact that the Communist Party which he had joined was a political organization.

It is significant to note that after the decision in the *Rowoldt* case, *supra*, the Supreme Court denied certiorari in cases challenging the constitutionality of the statute and asking for the overruling of Galvan. *Schleich v. Butterfield, supra*; *U. S. ex rel Avramovich v. Lehmann* (1957) 355 U.S. 905; *Niukkanen v. Boyd, supra*.

A recent case to enjoin an order of deportation was that of *Wellman v. Butterfield*, 6 Cir. 1958, 253 F.2d 932. There the activities of the party charged were almost identical with the activities of this appellant. The court there said:

"In our opinion the foregoing evidence was sufficient to show a 'meaningful association' with the Communist Party of the kind referred to in the *Rowoldt* case, and to establish that the appellant joined the party, aware that she was 'joining an organization known as the Communist Party which operates as a distinct and active political organization . . .' Galvan v. Press *supra*." (and citing further cases)

As stated above, each of the contentions made under this specification was fully considered and rejected in *MacKay v. Boyd, supra*, which was therefore final and determinative of this issue. *Rystad v. Boyd, supra*, and *Cruz-Sanchez v. Robinson, supra*.

CONCLUSION

Judgment of the District Court dismissing the Amended Petition for Writ of Habeas Corpus and Complaint for Injunctive Relief, discharging the writ of habeas corpus and remanding the appellant to the custody of the District Director of the Immigration & Naturalization Service for deportation, should be, in all things, affirmed. This appellant was found deportable after a fair hearing and under a constitutional statute. The issues urged by appellant in this appeal are merely colorable, rather than genuine, and a further delay in the execution of this valid deportation Order should not be tolerated.

Respectfully submitted,

C. E. LUCKEY,
United States Attorney,
District of Oregon,

VICTOR E. HARR,
Assistant U. S. Attorney,
Attorneys for Appellee.

March 1959.

United States
COURT OF APPEALS
for the Ninth Circuit

HAMISH SCOTT MacKAY,

Appellant,

v.

EUGENE D. McALEXANDER, Acting District Director,
District 31, Immigration and Naturalization
Service,

Appellee.

APPELLANT'S REPLY BRIEF

*Appeal from the United States District Court
for the District of Oregon.*

FILED

APR - 1 1959

PETERSON, POZZI & LENT,
NELS PETERSON,
901 Loyalty Building,
Portland 4, Oregon,

GERALD H. ROBINSON,
1006 Failing Building,
Portland 4, Oregon,
Attorneys for Appellant.

PAUL P. O'BRIEN, CLERK

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APPELLANT'S REPLY BRIEF

*Appeal from the United States District Court
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**REPLY IN SUPPORT OF APPELLANT'S STATEMENT
OF THE ISSUES**

Appellee contends that the issue of whether there was substantial, probative and reasonable evidence to support the order of deportation should not be reviewed in the light of the new standards set by the United States Supreme Court in *Rowoldt v. Perfetto*, 355 U.S. 115.

Appellee also contends that the constitutionality of the act was fully adjudicated in appellant's earlier appeal, *McKay v. Boyd*, 218 F.2d 666, cert. den. 350 U.S. 840, reh. den. 351 U.S. 929.

Appellant has set forth in his opening brief precisely why the issues as stated therein are the correct ones in this case and these points will be elaborated in the course of this reply brief.

REPLY IN SUPPORT OF APPELLANT'S PROPOSITION NO. I

Appellee brushes off the argument set forth on pages 6 through 11 of the appellant's opening brief to the effect that the statute under which the government seeks to deport appellant is unconstitutional as a bill of attainder. Appellee contends that the Supreme Court by implication decided this issue to the contrary in *Galvan v. Press*, 347 U.S. 522, and *Harisiades v. Shaughnessy*, 342 U.S. 580.

It is true, however, that in neither of these cases, nor in any subsequent United States Supreme Court case, was the issue decided as to whether Title 8, U.S. Code, Sec. 1251(a)(6)(c), is a bill of attainder. Judge Solomon's memorandum opinion to the contrary notwithstanding, there is nothing in the Court's decision in the *Galvan* case, nor in Mr. Justice Black's dissenting opinion in that case, that could lead anyone to the conclusion that the issue concerning a bill of attainder had been passed upon by the court.

The constitutional issues, we believe, should be considered because they raise important questions which affect the lives and liberties of the American people. It is significant that appellee in no way challenges the conclusions reached by appellant in his argument on this point. We are inclined to think that this constitutes an admission that the act in question is a bill of attainder and is therefore unconstitutional.

REPLY IN SUPPORT OF APPELLANT'S PROPOSITION NO. II

Appellee appears to base its argument that MacKay is a Canadian citizen upon two propositions of law: (1) That MacKay cannot "collaterally attack" the void citizenship certificate of his father, James MacKay; and (2) that the case of *Ex Parte Griffin*, 237 F. 445, held that one who takes an oath of allegiance to the King of Great Britain expatriates himself regardless of the treaty between the United States and Great Britain.

It should be pointed out that James MacKay's Canadian citizenship was void from the very start by reason of his sufficient residence in Canada and under the circumstances of this case, where the most serious penalty of deportation may be inflicted, appellant should be permitted to prove his American citizenship, even though it brings into question his father's alleged Canadian naturalization.

The government's citation of *Ex Parte Griffin*, supra, does not support its contention that the British-Ameri-

can treaty of May 13, 1870, 16 Stat. 775, does not bar the condition of statelessness which the government would seek to impose upon James MacKay by inference. The District Judge in the *Griffin* case did not discuss the effect of this British-American treaty. On the contrary, he imposed upon Griffin the very condition of statelessness which the treaty obviously seeks to eliminate. Although the treaty was in force at the time of the *Griffin* decision, it was apparently not called to the attention of the court and therefore the court never passed upon it.

The conclusion is inevitable then that in the light of this British-American treaty appellant's father retained his American citizenship until he was validly naturalized as a Canadian. This was not accomplished because of his insufficient residence in Canada. Thus, under the terms of the treaty, he remained an American citizen and transmitted this citizenship to the appellant, Hamish Scott MacKay.

For this reason appellant contends he is a citizen of the United States and is not subject to deportation.

REPLY IN SUPPORT OF APPELLANT'S PROPOSITION NO. III

Appellee in its answering brief (pp. 17, 18) seems to have missed entirely the point raised by appellant in his opening brief, namely that appellant was not afforded a fair hearing on his application for suspension of deportation because the special inquiry officer presid-

ing at this hearing was the same person who had served as hearing officer in the initial hearings on appellant's deportability and who had ordered appellant deported.

Appellee seeks to argue that the presiding officer at the suspension hearing had ample grounds on which to deny suspension to appellant. But this is not the point. The point is that the said hearing officer was biased and that the denial of appellant's right to a hearing presided over by a fair and impartial officer invalidated the hearing and denied appellant due process of law.

REPLY IN SUPPORT OF APPELLANT'S PROPOSITION NO. IV

Appellee in effect accuses appellant of a misstatement of facts on pages 18 and 19 of its brief. In so doing, appellee apparently inadvertently failed to read the quotation from the decision of the special inquiry officer on page 19 of appellant's opening brief which speaks for itself as to what the hearing officer meant.

All quibbles aside, there is no debate that appellant has established his statutory eligibility for the exercise of the discretionary relief of suspension of deportation. The issue in this case is whether or not the government's denial of suspension of deportation was an abuse of discretion. We are astounded to learn from appellee's answering brief that in such a hearing as this "his activities, the organizations to which he belonged or the principles with which he was in sympathy and the individuals with whom he maintained an association, were all open to inquiry." (Br. 21)

Under such a doctrine as urged by appellee, there are apparently no constitutional limits upon the scope of the inquiry to which an applicant for suspension of deportation may be subjected. Matters of relevancy and materiality to the issue of whether or not he would be a desirable resident in this country may apparently be ignored by the government.

Moreover, the government would have us believe that any question, any line of inquiry, or any investigation, is perfectly legitimate even if it is not established by the government to have a bearing upon the desirability of the alien as a resident. If the alien refuses for good and valid reasons to participate in what might be termed a "witch hunt", under the government's theory he should automatically be denied suspension of deportation even if the government has failed to establish or explain in any way what connection the question has with the issues to be determined in the hearing on the application for suspension of deportation.

We sincerely hope that the American concept of due process of law has not shrunk to such an impotent and insignificant barrier to manifest unfairness.

**REPLY IN SUPPORT OF APPELLANT'S
PROPOSITION NO. V**

The government contends in its answering brief that *Rowoldt v. Perfetto*, *supra*, did not change in any way the test laid down in *Galvan v. Press*, *supra*, as to the sufficiency of evidence of "meaningful association" as a basis for deportation.

This proposition presented to this Court by the government is apparently, however, not the same interpretation of the *Rowoldt* case that the government has made in connection with its review of many deportation cases. The government cannot deny that since the Supreme Court's decision in the *Rowoldt* case, the Board of Immigration Appeals has reviewed a number of deportation cases to determine if aliens previously found deportable were in fact deportable under the standards as redefined in *Rowoldt*. Surely the language of the Court in requiring that a deportation order be supported by "substantial" proof that an alien had a "meaningful association" not wholly void of "political implications," as well as the facts of *Rowoldt*, added new elements to the framework erected by *Galvan v. Press*, *supra*.

In view of the extremely weak case presented by the government, and the demonstrated unreliability of the government's witnesses (Appellant's Opening Brief pp. 24-27) we think it is only fair that this Court take another look at the record to determine if, in the light of *Rowoldt v. Perfetto*, *supra*, there is the kind of evi-

dence required by the statute to support the order of deportability. It should be emphasized again that Section 1252(b)(4) of Title 8, U.S. Code, requires that "No decision of deportability shall be valid unless it is based upon reasonable, substantial, and probative evidence." Clearly the evidence must not only be substantial and probative, but also reasonable. We respectfully refer the Court to the analysis of the evidence made in the opening brief with the suggestion that it does not measure up to the requirements of the statute as interpreted by *Rowoldt*.

CONCLUSION

Appellant respectfully urges that the judgment be reversed with instructions to grant the relief prayed for in appellant's Amended Petition for Writ of Habeas Corpus and Injunctive Relief to Prevent Agency Action.

Respectfully submitted,

NELS PETERSON,
GERALD H. ROBINSON,
Attorneys for Appellant.

United States
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PETITION FOR REHEARING

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PETERSON, POZZI & LENT,
NELS PETERSON,

901 Loyalty Building,
Portland 4, Oregon,

GERALD H. ROBINSON,

1006 Failing Building,
Portland 4, Oregon,

Attorneys for Appellant.



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NO. 16148

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Appellee.

PETITION FOR REHEARING

*Appeal from the United States District Court
for the District of Oregon.*

TO THE HONORABLE WALTER L. POPE, RICHARD H. CHAMBERS, AND FREDERICK G. HAMLEY, JUDGES OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT:

COMES NOW Hamish Scott McKay and respectfully petitions the above Court for a rehearing *en banc* of his appeal in which an opinion affirming the judgment of the District Court was filed June 9, 1959 for the following reasons and upon the following grounds:

1. The Court erred in finding that Appellant is an alien.

2. The Court erred in finding that the instant case does not fall within the rule of *Rowoldt v. Perfetto*, 355 U.S. 115.

3. The Court erred in finding that Appellant was afforded a fair hearing on his application for suspension of deportation.

4. The Court erred in finding that the denial of suspension of deportation was not arbitrary, capricious, and an abuse of discretion.

5. The Court erred in finding that the statute under which the government seeks to deport Appellant is constitutional.

ARGUMENT

Petitioner Is Not An Alien By Virtue Of His Father's American Citizenship

The Court has denied Appellant's claim that he is an American citizen although it admits that from the facts, Appellant's father could not have resided in Canada for the three years required for a valid Canadian naturalization. The Court refuses to permit Appellant to challenge the certificate of naturalization because this would amount to a collateral attack and "It would appear that considerations of comity and reciprocity would thus preclude American courts from entertaining a collateral attack upon a decree of naturalization entered by a foreign court." (P. 4)

The Court's view of the case would preclude Appellant from ever establishing his American citizenship because the same "collateral attack" rule would undoubtedly be applied by Canadian courts should Appellant attempt to upset there the naturalization certificate of his father. Certainly the Canadian government, the only direct party to his father's naturalization now in existence, would have no interest in going into a Canadian court to revoke the naturalization of a deceased person.

Thus we are faced with the conclusion that even where such an important matter as deportation is involved, an alleged alien cannot prove his citizenship because the Court applies the formal doctrine against collateral attack.

We could understand this rigid viewpoint if the facts were in dispute. However, the record is crystal clear that Appellant's father could not have been a validly-naturalized Canadian citizen. We urge the Court to look through the formalities of a doctrine to its purpose to the ultimate end that justice be served. The purpose of the collateral attack doctrine is the necessary limitation upon undue continuation of litigation and it is not unlike the purpose of the doctrine of *res judicata*. The integrity of judgments of courts is involved. The assumption is that justice is best served where facts, once settled by judicial decree, are not permitted to be challenged again, especially when the parties involved are not identical with those in the earlier litigation.

But the Court's application of this judicial rule should not be so mechanical that it overlooks the results which are contrary to the purposes of the doctrine itself. We suggest that this is the situation here, where there is no dispute as to the facts in the naturalization of Appellant's father and no injury can be done to him by an American court's ruling that the naturalization was void. The real issue in this case is whether an unbearable hardship of deportation will be imposed upon Appellant, or whether the facts which are plain and known to everyone will be recognized and Appellant's standing as an American citizen reaffirmed.

Judgments of naturalization have not always been wholly immune to collateral attack where the record is perfectly clear that the judgment is void. The case of *In re Yamashita*, 30 Wash. 234, 70 P. 482, held that a judgment of the state court granting citizenship to Yamashita would not be recognized by the Supreme Court of the State of Washington where the transcript in the citizenship hearing showed conclusively that Yamashita was a Japanese and therefore not eligible for citizenship under the naturalization law at that time. Yamashita had applied for admission to the bar of the Washington Supreme Court as an attorney and because the Court did not consider him a citizen of the United States, his admission to the bar was denied.

We appreciate the Court's consideration of the importance of comity and reciprocity between American and Canadian courts. Yet comity and reciprocity are

policies designed to further justice. Where it is apparent that injustice is being done, and that a Court was deceived, either intentionally or accidentally, and the jurisdictional requirements of Canadian naturalization have been ignored, then we believe that this Court through reasons of humanity, justice, and fairness should declare that the Canadian citizenship of Appellant's father was void and that Hamish Scott McKay is in fact an American citizen by birth.

The Court stresses the technical distinction between intrinsic and extrinsic fraud, conceding that if fraud were shown it would be intrinsic to the decree.

In so doing, the Court misses the point that the three years residence requirement required by Canadian law was jurisdictional insofar as Canadian naturalization is concerned. The kind or degree of fraud or mistake involved in rendering the decree would, in seems to us, be immaterial where the issue is the actual jurisdiction of the court, as distinguished from a situation where the judgment was rendered fraudulently and the court had such actual jurisdiction.

The Act Under Which The Government Seeks To Deport The Appellant Is Unconstitutional As A Bill of Attainder

In its opinion, the Court refuses to seriously consider the claim that the act under which the government seeks to deport Appellant is a bill of attainder on the ground that *Niukkanen v. Boyd*, 241 F2d 938; *Niukkanen v.*

McAlexander, decided April 6, 1959, and *Ocon v. Del Guercio*, 237 F2d 177, all sustained the constitutionality of the act.

A careful examination of the records and the opinions in the cases cited by the Court discloses that at no point was the question of the act as a bill of attainder ever considered by this Court. Moreover, the cases cited in *Ocon v. Del Guercio*, *supra*, in no way touch upon the bill of attainder point. It is true that the Courts have sustained the constitutionality of the act with respect to other constitutional issues. We believe, however, that on its merits, the question of bill of attainder is a grave and serious one which this Circuit and the Supreme Court has never determined. In the first *Niukkanen* case, this Court issued a per curiam opinion in which it did not discuss the constitutionality of the act. As a matter of fact, counsel in this case represented Niukkanen and were informed on oral argument that the Court would not hear the arguments as to the constitutionality of the act.

Appellant has raised a substantial issue as to the constitutionality of the act, challenging it as a bill of attainder. To date, the Court has not answered the question with a full discussion on the merits. Surely under these circumstances he is not foreclosed from raising the question on this appeal and the Court should consider it *in extenso* before ordering him deported.

**There Is Insufficient Evidence To Deport Appellant
Under *Rowoldt v. Perfetto*, 355 U.S. 115**

The Court has held, in substance, that it will not reconsider the credibility of witnesses in the light of Appellant's contention that the doctrine of *Rowoldt v. Perfetto*, supra, does not sanction his deportation.

The Court then proceeds to itemize his alleged activities in connection with the Communist Party and in effect gives full weight to all adverse testimony and no weight to his denials and to his other affirmative testimony.

Rowoldt v. Perfetto, supra, requires a "meaningful association" to be proved by substantial evidence in accordance with the statute. Furthermore this evidence must be probative and believable. Yet the Court attempts to apply the *Rowoldt* doctrine but refuses to look at the evidence critically.

Under such ruling, we believe that *Rowoldt v. Perfetto*, supra, is reduced to a cipher.

**Appellant Was Not Afforded A Fair Hearing On His
Application For Suspension Of Deportation Because
The Special Inquiry Officer Was Biased And Prejudiced**

The Court holds that a hearing officer who, on a record shot full with conflict and contradictory testimony, even among the government witnesses, describes Appellant as "evasive" and in effect as a liar, is not biased against said person in a reopened hearing on suspension of deportation.

It will be recalled that MacKay denied that he was a member of the Communist Party at the original hearing on the question of deportation. The hearing officer chose to believe the testimony of government witnesses who said that he was such a member.

On the hearing for suspension of deportation MacKay, under the Court's present ruling, was faced with one of two alternatives. Either he could persist in his denial of Communist affiliation and membership with the result that occurred in this case, namely that he was denied suspension of deportation. Or he could on the second hearing reverse himself and admit to Communist membership or affiliation and in such a case he would then be subject to prosecution for perjury and suspension of deportation would certainly be denied on the grounds that he had perjured himself in the prior proceedings.

Thus the Court's ruling has the effect of placing an alien in the position of Appellant here, between two impossible alternatives. In either case, the Appellant would not receive administrative grace. Only those persons, whether guilty of the allegation or not, who come forth from the outset and admit that they were members or affiliates of the Communist Party would be entitled to suspension.

Surely this is not the purpose of the law which empowers the Attorney General to suspend deportation. Such a position is not in accordance with fair play. This is not due process of law.

**The Order Denying Appellant Suspension Of Deportation
Was Arbitrary, Capricious, And An Abuse Of Discretion
And Otherwise Not In Accordance With Law**

The Court upholds the legality of the test applied by the hearing officer on suspension of deportation that the Appellant would have to show that he opposed the principles of the Communist Party before he is eligible for suspension of deportation.

The Court, however, fails to note the facts mentioned in Appellant's brief on pages 20 through 22 that the basis on which Appellant was denied suspension was his failure to answer certain questions about the American Committee for the Protection of the Foreign Born.

As we have pointed out, there is no evidence in the record as to the nature of this group, whether it is Communist or otherwise, and whether it is in any way wrong for any alien to have any connection with this group. Furthermore, the questions put to MacKay were never pressed by the government. It could be construed in reading the record that the government in fact abandoned its efforts to draw information concerning this committee from MacKay.

Surely there are limits to the scope of inquiry which the government may make concerning the activities of an alien, even on application for suspension of deportation. As in the case of congressional investigating committees, a hearing on suspension of deportation must be conducted within rules of relevancy and competency just like any other quasi-judicial proceeding.

CONCLUSION

Appellant respectfully suggests that a rehearing be granted, and because of the constitutional issue raised herein, that the rehearing should be *en banc*.

Respectfully submitted,

NELS PETERSON,
GERALD H. ROBINSON,
Counsel for Appellant.

No. 16150 ✓

See Vol. 3078

United States
Court of Appeals
for the Ninth Circuit

MORTIMER A. KLINE,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

and

GORDON OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

Transcript of Record

Petition to Review Decisions of the Tax Court
of the United States

FILED

DEC 23 1958

PAUL P. O'BRIEN

No. 16150

United States
Court of Appeals
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MORTIMER A. KLINE,

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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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APPEARANCES

For Petitioner:

J. W. BULLION,
Republic Nat'l Bank Bldg.,
Dallas, Texas.

For Respondent:

CHARLES K. RICE,
Asst. U. S. Attorney General;

LEE A. JACKSON,
Attorney,
Department of Justice,
Washington 25, D. C.

The Tax Court of the United States

Docket No. 57291

MORTIMER A. KLINE,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DOCKET ENTRIES

1955

Apr. 8—Petition received and filed. Taxpayer notified. Fee paid.

Apr. 11—Copy of petition served on General Counsel.

May 31—Answer filed by General Counsel.

May 31—Request for hearing in Los Angeles, Calif., filed by General Counsel.

June 6—Notice issued placing proceeding on Los Angeles calendar. Service of Answer and Request made.

July 12—Reply to answer filed by petitioner. Copy served 7/13/55.

1957

Feb. 20—Hearing set April 15, 1957, Los Angeles, Calif.

Apr. 22—Hearing had before Judge Raum on the merits. Joint oral motion to consolidate for trial—Granted. Submitted—Stipulation of facts filed. Briefs due June 7, 1957; Reply Briefs due July 8, 1957.

1957

May 10—Transcript of Hearing, 4/22/57, filed.

June 4—Brief filed by petitioner—Served 6/10/57.

June 7—Brief filed by respondent—Served 6/10/57.

July 3—Reply Brief filed by petitioner—Served
7/10/57.

1958

Mar. 13—Findings of Fact and Opinion filed, Judge
Raum, Decision for Respondent.

Mar. 19—Decision entered, Judge Raum.

June 9—Petition for Review by U.S.C.A., 9th, filed
by Petitioner.

June 9—Proof of Service of Petition for Review
filed.

June 10—Agreed Designation filed.

July 7—Order extending time for filing record on
review and docketing Petition for Review
to Sept. 7, 1958, entered.

[Title of Tax Court.]

Docket No. 57292

GORDON OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DOCKET ENTRIES

1955

Apr. 8—Petition received and filed. Taxpayer noti-
fied. Fee paid.

1955

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Feb. 20—Hearing set April 15, 1957, Los Angeles, Calif.

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1958

Mar. 13—Findings of Fact and Opinion filed, Judge Raum, Decision for Respondent.

Mar. 19—Decision entered, Judge Raum.

Mar. 26—Order vacating Decision and Decision, entered.

June 9—Petition for Review by U.S.C.A., 9th, filed by petitioner.

1958

June 9—Proof of Service of Petition for Review, filed.

June 10—Agreed designation filed.

July 7—Order extending time for filing record on review and docketing petition for review to Sept. 7, 1958, entered.

[Title of Tax Court and Cause.]

Docket No. 57291

PETITION

The above-named petitioner hereby petitions for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (Bureau symbols A:R:90D:LPH) dated January 18, 1955, and as a basis for his proceeding alleges as follows:

1. The petitioner is an individual with offices at 812 General Petroleum Building, 612 South Flower Street, Los Angeles 17, California. The return for the period here involved was filed with the Collector of Internal Revenue for the Sixth District of California.

2. The notice of deficiency (a copy of which is attached and marked Exhibit A) was mailed to the petitioner on January 18, 1955.

3. The deficiency as determined by the respondent is liability as transferee of assets of Gordon Oil

Company, and arises because of income and excess profits taxes for the taxable year ended August 31, 1951, determined against Gordon Oil Company by the respondent. The amount in controversy is \$46,-256.88.

4. The determination of transferee liability and taxes set forth in the said notice of deficiency is based upon the following errors:

(a) The respondent has erroneously and improperly increased Gordon Oil Company's taxable income \$82,518.70 by disallowing that sum as a loss from the sale of depreciable equipment.

5. The facts upon which petitioner relies as the basis for this proceeding are as follows:

(a) Gordon Oil Company was incorporated under the laws of California on January 20, 1949.

(b) Thereafter Gordon Oil Company acquired two (2) undeveloped oil and gas leases, Government Serials LA05375 and 071300 in Section 31 of the Placerita Field, Los Angeles County, California. Gordon Oil Company developed the leases during 1949 and 1950, and in April, 1951, approximately twenty-nine (29) producing wells had been drilled in the two leases.

(c) Pursuant to agreement dated May 7, 1951, effective as of May 1, 1951, Gordon Oil Company sold its operating equipment, consisting of depreciable assets, for a total consideration of \$250,000.00. The adjusted basis of said assets was \$332,518.70.

In the final income tax return of Gordon Oil Company filed for the taxable year ended August 31, 1951, a loss in the amount of \$82,518.70 was claimed.

(d) In the agreement of May 7, 1951, referred to in paragraph (c) above, Gordon Oil Company assigned its leaseholds, reserving a payment out of the oil to be produced of 85% of the working interest to the value of \$3,600,000.00, plus 5% on the unliquidated balances and all taxes assessed against the reserved share of oil.

(e) On August 31, 1951, Gordon Oil Company ceased business and was dissolved.

Wherefore, the petitioner prays that this Court may hear the proceeding and determine that there is no deficiency due from Gordon Oil Company for the year 1951 and no transferee liability due from petitioner; and for any other and further relief as in the opinion of the Court petitioner is entitled to under the law.

/s/ MORTIMER A. KLINE,

/s/ SIDNEY R. REED,

/s/ J. W. BULLION,

Counsel for Petitioner.

Duly verified.

Received and filed April 8, 1955, T.C.U.S.

Served April 11, 1955.

[Title of Tax Court and Cause.]

Docket No. 57292

PETITION

The above-named petitioner hereby petitions for a redetermination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (Bureau symbols A:R:90D:LHP) dated January 18, 1955, and as a basis for its proceeding alleges as follows:

1. Petitioner was a corporation organized under and by virtue of the laws of the State of California, with principal office at 812 General Petroleum Building, 612 South Flower Street, Los Angeles 17, California. The return for the period here involved was filed with the Collector of Internal Revenue for the Sixth District of California. This proceeding is brought on behalf of said corporation by its directors, pursuant to authority conferred upon them by law, as hereinafter alleged.

2. The notice of deficiency (a copy of which is attached hereto and marked Exhibit A) was mailed to petitioner on January 18, 1955.

3. The deficiency in controversy is income and excess profits taxes for the period January 1, 1951, to August 31, 1951. The amount in controversy is \$46,256.88.

4. The determination of the tax set forth in the said notice of deficiency is based upon the following error:

(a) The Commissioner has erroneously and improperly increased petitioner's taxable income \$82,518.70 by disallowing that sum as a loss from the sale of depreciable equipment.

5. The facts upon which petitioner relies as the basis for this proceeding are as follows:

(a) Petitioner was incorporated under the laws of California on January 20, 1949.

(b) Thereafter petitioner acquired two undeveloped oil and gas leases, Government Serials LA05375 and 071300, in Section 31 of the Placerita Field, Los Angeles County, California. Petitioner developed the leases during 1949 and 1950, and in April, 1951, approximately twenty-nine producing wells had been drilled in the two leases.

(c) Pursuant to agreement dated May 7, 1951, effective as of May 1, 1951, petitioner sold its operating equipment, consisting of depreciable assets, for a total consideration of \$250,000.00. The adjusted basis of said assets was \$332,518.70. In the final income tax return of petitioner filed for the taxable year ended August 31, 1951, a loss in the amount of \$82,518.70 was claimed.

(d) In the agreement of May 7, 1951, referred to in paragraph (c) above, petitioner also assigned its leaseholds, reserving a payment out of the oil to be produced of 85% of the working interest to the value of \$3,600,000.00, plus 5% on the unliquidated balances and all taxes assessed against the reserved share of oil.

(e) On August 31, 1951, petitioner ceased business and was dissolved.

(f) The laws of California authorize the continued existence of a dissolved corporation for the purpose of winding up its affairs. The directors of a dissolved corporation are empowered to act on behalf of a dissolved corporation. California Corporation Code, Sections 5400, 4800, and 4801.

(g) The directors of Gordon Oil Company, the petitioner herein, were at the time of said dissolution and are now Mortimer A. Kline, Frank J. Gillis, and Charles C. Stanley, Jr.

Wherefore, the petitioner prays that this Court may hear the proceeding and determine that there is no deficiency due from the petitioner for the taxable year ended August 31, 1951, and for any other and further relief as in the opinion of the Court the petitioner is entitled to under the law.

[Seal] GORDON OIL COMPANY,

By /s/ MORTIMER A. KLINE,

/s/ FRANK J. GILLIS,

/s/ CHARLES C. STANLEY, JR.,

Directors.

/s/ SIDNEY R. REED,

/s/ J. W. BULLION,

Counsel for Petitioner.

EXHIBIT A

U. S. Treasury Department
Internal Revenue Service
District Director
Chief, Audit Division
P.O. Box 231—Main Office
Los Angeles 53, California

In replying refer to:

A:R:90D:LHP

Mi-8111, Ext. 381.

Gordon Oil Company,
812 General Petroleum Building,
612 South Flower Street,
Los Angeles 17, California.

Gentlemen:

You are advised that the determination of your income and excess profits tax liability for the taxable year(s) January 1, 1951, to August 31, 1951, discloses a deficiency or deficiencies of \$46,256.88 as shown in the statement attached.

In accordance with the provisions of existing internal revenue laws, notice is hereby given of the deficiency or deficiencies mentioned.

Within 90 days from the date of the mailing of this letter you may file a petition with The Tax Court of the United States, at its principal address, Washington 4, D. C., for a redetermination of the deficiency. In counting the 90 days you may not exclude any day unless the 90th day is a Sat-

urday, Sunday, or legal holiday in the District of Columbia in which event that day is not counted as the 90th day. Otherwise Saturdays, Sundays, and legal holidays are to be counted in computing the 90-day period.

Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the District Director of Internal Revenue, Chief, Audit Division, P.O. Box 231, Main Office, Los Angeles 53, California. The signing and filing of this form will expedite the closing of your return(s) by permitting an early assessment of the deficiency or deficiencies, and will prevent the accumulation of interest, since the interest period terminates 30 days after receipt of the form, or on the date of assessment, or on the date of payment, whichever is the earlier.

Very truly yours,

T. COLEMAN ANDREWS,
Commissioner;

By /s/ R. A. RIDDELL,
District Director of Internal
Revenue.

Enclosures:

Statement

Form 1276

Agreement Form

Statement

A :R:90D :LHP

Gordon Oil Company
 812 General Petroleum Building
 612 South Flower Street
 Los Angeles 17, California

Tax Liability for the Taxable Year January 1, 1951,
 to August 31, 1951

	Liability	Assessed	Deficiency
Income and excess profits tax	\$66,638.15	\$20,381.27	\$46,256.88

In making this determination of your income and excess profits tax liability careful consideration has been given to the report of examination dated October 4, 1954.

Adjustment to Net Income

	Income Tax Net Income	Excess Profits Net Income
Net income as disclosed by return.....	\$ 41,540.53	\$ 41,540.53
Unallowable deduction:		
(a) Loss from sale and conveyance....	82,518.70	82,518.70
Net income adjusted	<u>\$124,059.23</u>	<u>\$124,059.23</u>

Explanation of Adjustment

(a) It is held that the deduction of \$82,518.70 claimed in the return for "Net loss from sale and conveyance" does not constitute an allowable deduction in computing taxable income under section 23 of the Internal Revenue Code of 1939. The deduction is accordingly disallowed.

Computation of Excess Profits Credit

There has been determined an excess profits credit of \$41,-218.71, computed under section 445 of the Internal Revenue Code of 1939, in lieu of \$46,398.10, the amount claimed in the

return. The excess profits credit of \$41,218.71 is computed as follows:

Total assets at end of last taxable year ending prior to 7-1-50, per return	\$556,130.14
Less:	
(a) Net capital reduction for current taxable year	28,496.87
Balance	<u>\$527,633.27</u>

Industry classification—13.

Base period rate of return.....	9.3%
---------------------------------	------

Average base period net income (9.3% of \$527,633.27)	\$ 49,069.89
---	--------------

Portion to be taken into account:

84% of \$49,069.89	\$ 41,218.71
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Excess profits credit based on income, as determined	\$ 41,218.71
--	--------------

Explanation

(a) There is determined a net capital reduction for the current taxable year in the amount of \$28,496.87, computed as follows:

- Equity capital at beginning of first taxable year ending after 6-30-50, per return \$364,969.63
- Equity capital at beginning of taxable year:

Total assets, per return	\$649,180.58
Adjustment under Sec. 437(c), I.R.C. of 1939:	
Depletion allowed 1949	\$ 77,049.42
Depletion allowed 1950	236,657.96
Total	<u>\$313,707.38</u>

Limited to cost		
of leases	256,250.00	
Less: Reserve for		
depreciation, per		
balance sheet	50,208.22	206,041.78
	<hr/>	<hr/>
Total assets under Sec.		
437(c)		\$443,138.80
Total liabilities,		
per return		173,326.28
		<hr/>
Excess of line 2 over line 1.....		None
Average daily capital addition.....		None
Average daily amount of distributions during the		
taxable year not out of earnings and profits, per		
return		\$142,316.87
Excess of line 1 over line 2.....		95,157.11
		<hr/>
Average daily capital reduction.....		\$237,473.98
Net capital reduction for current taxable year (12%		
of \$237,473.98)		\$ 28,496.87

Computation of Tax

Tentative tax under Sec. 108(g) (1), IRC of 1939:

Net income adjusted	\$124,059.23
Income tax (combined normal tax	
and surtax):	
47% of \$124,059.23.....	\$ 58,307.84
Subtract	5,500.00
	<hr/>

Tentative tax under Sec. 108(g) (1)	\$ 52,807.84
-------------------------------------	--------------

Tentative tax under Sec. 108(g) (2), IRC of 1939:

Net income adjusted	\$124,059.23
Income tax (combined normal tax	
and surtax):	
52% of \$124,059.23.....	\$ 64,510.80
Subtract	5,500.00
	<hr/>

Tentative tax under Sec. 108(g) (2)	\$ 59,010.80
-------------------------------------	--------------

Tax under Sec. 108(g), IRC of 1939:

1. Tentative tax under Sec. 108(g) (1).....	\$ 52,807.84
2. Tentative tax under Sec. 108(g) (2).....	59,010.80
3. Number of days in taxable year.....	243
4. Number of days before April 1, 1950.....	90
5. Number of days after March 31, 1951.....	153
6. Portion of item 1 which item 4 bears to item 3 (\$52,807.84x90/243)	\$ 19,558.46
7. Portion of item 2 which item 5 bears to item 3 (\$59,010.80x153/243)	37,154.95

Total income tax under Sec. 108(g).....\$ 56,713.41

Tax under Sec. 430, I.R.C. of 1939:

Excess profits net income.....	\$124,059.23
Excess profits net income on annual basis (\$124,059.23x365/243)	\$186,344.11
Less: Excess profits credit.....	41,218.71

Adjusted excess profits net income.....\$145,125.40

Excess profits tax:

(a) 30% of \$145,125.40 (Sec. 430(a) (1), I.R.C.
of 1939)

\$ 43,537.62

(b) 8% of \$186,344.11 (Sec. 430(e) (B), I.R.C.
of 1939)

\$ 14,907.53

Excess profits tax (lesser of items (a) and (b)).....\$ 14,907.53

Excess profits tax for short taxable year under Sec.

433 (\$14,907.53x243/365)

\$ 9,924.74

Summary

Income tax

\$ 56,713.41

Excess profits tax.....

9,924.74

Correct income and excess profits tax liability.....\$ 66,638.15

Income and excess profits tax assessed.

Original, Account No. CF 3-10019.....

20,381.27

Deficiency of income and excess profits tax.....\$ 46,256.88

Duly verified.

Received and Filed April 8, 1955, T.C.U.S.

Served April 11, 1955.

[Title of Tax Court and Cause.]

Docket No. 57291

ANSWER

The Commissioner of Internal Revenue, by his attorney, John Potts Barnes, Chief Counsel, Internal Revenue Service, for answer to the petition of the above-named taxpayer, admits, denies and alleges as follows:

1 and 2. Admits the allegations contained in paragraphs 1 and 2 of the petition.

3. Admits that the deficiency as determined by the respondent is liability as transferee of assets of Gordon Oil Company, and arises because of income and excess profits taxes determined against Gordon Oil Company by the respondent. The amount in controversy is \$46,256.88. Avers that the liability as transferee of assets of Gordon Oil Company arises because of income and excess profits tax liability for the taxable year January 1, 1951, to August 31, 1951, determined against Gordon Oil Company by the respondent. Denies the remaining allegations contained in paragraph 3 of the petition.

4(a). Denies the allegations of error contained in subparagraph (a) of paragraph 4 of the petition.

5(a) and (b). Admits the allegations contained in subparagraphs (a) and (b) of paragraph 5 of the petition.

(c). Admits that in the final income tax return of Gordon Oil Company filed for the taxable year ended August 31, 1951, a loss in the amount of \$82,-518.70 was claimed. Denies the remaining allegations contained in subparagraph (c) of paragraph 5 of the petition.

(d). Denies the allegations contained in subparagraph (d) of paragraph 5 of the petition.

(e). Admits the allegations contained in subparagraph (e) of paragraph 5 of the petition.

6. Denies generally each and every allegation contained in the petition not hereinbefore specifically admitted or denied.

7. Further answering the petition respondent alleges that petitioner, Mortimer A. Kline, is liable under the provisions of Section 311 of the Internal Revenue Code of 1939 as transferee of assets of Gordon Oil Company, Los Angeles, California, transferor, for the latter's unpaid income and excess profits tax liability aggregating \$46,256.88 for the taxable year January 1, 1951, to August 31, 1951, plus statutory interest, as determined by the Commissioner of Internal Revenue. In support of the Commissioner's determination of transferee liability respondent alleges and relies upon the following facts:

(a). The Commissioner has determined income and excess profits tax deficiencies of \$46,256.88 for the taxable year January 1, 1951, to August 31, 1951,

against Gordon Oil Company. The said liability for income and excess profits taxes remains outstanding and has never been paid to the Director of Internal Revenue.

(b). That on or about August 31, 1951, the said Gordon Oil Company transferred assets having a value in excess of the aforesaid income and excess profits tax liability of \$46,256.88, plus statutory interest thereon, to Mortimer A. Kline, petitioner herein, without consideration.

(c). As a result of the transfer of such assets by Gordon Oil Company, transferor, to Mortimer A. Kline, petitioner herein, the said Gordon Oil Company became insolvent and without sufficient assets and funds from which the said income and excess profits tax deficiencies determined by the Commissioner of Internal Revenue, plus statutory interest thereon, might be satisfied and paid.

(d). Petitioner, Mortimer A. Kline, is liable as the transferee of assets of Gordon Oil Company, transferor, under Section 311 of the Internal Revenue Code of 1939, for the payment of said income and excess profits tax deficiencies totaling \$46,256.88, plus interest thereon as provided by law.

Wherefore, it is prayed:

(1). That the Tax Court enter its decision that the petitioner is liable at law and in equity as transferee of Gordon Oil Company, transferor, for the payment of the income and excess profits tax

deficiencies aggregating \$46,256.88, plus statutory interest thereon.

(2). That the petitioner's appeal be denied and that the respondent's determination be approved.

/s/ JOHN POTTS BARNES, R.E.M.
Chief Counsel, Internal
Revenue Service.

Filed May 31, 1955, T.C.U.S.

[Title of Tax Court and Cause.]

Docket No. 57292

ANSWER

The Commissioner of Internal Revenue, by his attorney, John Potts Barnes, Chief Counsel, Internal Revenue Service, for answer to the petition of the above-named taxpayer, admits and denies as follows:

1, 2, and 3. Admits the allegations contained in paragraphs 1, 2, and 3 of the petition.

4(a). Denies the allegations of error contained in subparagraph (a) of paragraph 4 of the petition.

5(a) and (b). Admits the allegations contained in subparagraphs (a) and (b) of paragraph 5 of the petition.

(c). Admits that in the final income tax return of petitioner filed for the taxable year ended August 31, 1951, a loss in the amount of \$82,518.70 was claimed. Denies the remaining allegations contained in subparagraph (c) of paragraph 5 of the petition.

(d). Denies the allegations contained in subparagraph (d) of paragraph 5 of the petition.

(e) and (f). Admits the allegations contained in subparagraphs (e) and (f) of paragraph 5 of the petition.

(g). Admits that the directors of Gordon Oil Company, the petitioner herein, were at the time of said dissolution and are now Mortimer A. Kline and Frank J. Gillis; denies for lack of sufficient information the remaining allegations in subparagraph (g) of paragraph 5 of the petition.

6. Denies generally each and every allegation contained in the petition not hereinbefore specifically admitted or denied.

Wherefore, it is prayed that the determination of the Commissioner be approved.

/s/ JOHN POTTS BARNES, R.E.M.
Chief Counsel, Internal
Revenue Service.

Filed May 31, 1955, T.C.U.S.

[Title of Tax Court and Cause.]

Docket No. 57291

REPLY

Now comes the above-named petitioner by his counsel, Sidney R. Reed and J. W. Bullion, and for reply to the affirmative allegations set out in the answer of the respondent, admits and denies as follows:

7. Denies that petitioner is liable under the provisions of Section 311 of the Internal Revenue Code of 1939 as transferee of assets of Gordon Oil Company, Los Angeles, California, transferor, for the latter's unpaid income and excess profits tax liability aggregating \$46,256.88 for the taxable year January 1, 1951, to August 31, 1951, plus statutory interest, as determined by respondent because there is no tax liability for said year due to respondent from said transferor.

7(a). Admits the allegations contained in paragraph 7(a) of the answer.

7(b). Admits the allegations contained in paragraph 7(b) of the answer.

7(c). Admits the allegations contained in paragraph 7(c) of the answer.

7(d). Denies the allegations contained in paragraph 7(d) of the answer because respondent erred in determining a deficiency in the amount of

\$46,256.88 against the transferor, Gordon Oil Company, to the petitioner.

Wherefore, it is prayed that this Court hear the above-entitled proceeding and determine that there is no deficiency due from the petitioner for the taxable year January 1, 1951, to August 31, 1951.

/s/ SIDNEY R. REED,

/s/ J. W. BULLION,

Counsel for Petitioner.

Received and Filed July 12, 1955, T.C.U.S.

[Title of Tax Court and Cause.]

Docket Nos. 57291 and 57292

STIPULATION OF FACTS

It is hereby stipulated (without limiting either party in the presentation of any other items of proof, either related or unrelated to the matter herein referred to) as follows:

1. Mortimer A. Kline, hereinafter called "Kline," is an individual residing in Los Angeles, California. He filed his income tax return for the taxable year ended December 31, 1951, with the Collector of Internal Revenue at Los Angeles, California. Attached hereto and marked Joint Exhibit 1-A is a true copy of such return.

2. Gordon Oil Company, hereinafter called "Gordon", was incorporated under the laws of the State of California on January 20, 1949. It was incorporated for the purpose of acquiring, exploring, developing and producing oil and gas properties and throughout the period of its existence conducted that business.

3. Gordon filed its income and excess profits tax returns for the taxable period January 1, 1951, to August 31, 1951, with the Collector of Internal Revenue at Los Angeles, California. Attached hereto and marked Joint Exhibit 2-B is a true copy of the income tax return filed for such period.

4. After its organization, Gordon acquired two (2) undeveloped oil and gas leases on March 22, 1949, the same being Government Serials L. A. 05375 and 073100 in Section 31 in Placerita Field, Los Angeles County, California. Gordon drilled and equipped on said leases twenty-nine (29) producing wells.

5. During the period from March to May, 1951, Kline purchased all of the outstanding stock of Gordon for a total consideration of \$3,962,432.54.

6. After Kline had acquired control of Gordon, Gordon, as a principal, by proper and appropriate corporate action executed an assignment to A. H. Meadows, hereinafter called "Meadows", and Tevis F. Morrow, hereinafter called "Morrow". A copy of the assignment from Gordon to Meadows and Morrow is annexed hereto as Joint Exhibit 3-C and made

a part hereof for all purposes. The amount of \$250,000 in cash was received by Gordon upon execution of the assignment.

7. At the time of the assignment to Meadows and Morrow, Gordon had on hand tangible assets, either in or on or pertaining to the above-mentioned leases, with a then adjusted basis, for depreciation or for gain or loss, of \$332,518.70

8. The above-mentioned tangible assets, their respective costs to Gordon and adjustments due to depreciation were as follows as of the date of their assignment to Meadows and Morrow:

Physical equipment in wells	\$159,748.52
Buildings	8,147.12
Machinery and equipment	5,414.27
Pipelines	18,909.76
Pumping equipment	94,745.87
Reservoirs and tanks	25,725.35
Autos and trucks	7,200.05
Total	<hr/> \$319,890.94
Less reserve for depreciation	37,429.80
Adjusted basis of fixed assets	<hr/> \$282,461.14
Crude Oil Inventories—	
book amount	13,215.15
Materials and supplies at	
book amount	34,204.04
Electrical service deposits	2,638.37
Total Adjusted Basis of Properties Sold	<hr/> \$332,518.70

9. At the time of the assignment to Meadows and Morrow, Gordon had fully depleted its leasehold cost as to both of the leases hereinabove mentioned in paragraph 4.

10. Following the assignment to Meadows and Morrow, Gordon was dissolved and all of its assets and property on hand, including the reserved production payment, were distributed in complete liquidation of the company to Kline in cancellation and redemption of all of the outstanding stock of the company.

11. Kline was the transferee of the assets of Gordon upon its complete liquidation in August, 1951.

/s/ SIDNEY R. REED,

/s/ J. W. BULLION,

Counsel for Petitioners.

/s/ NELSON P. ROSE, R.E.M.

Chief Counsel, Internal Revenue Service, Counsel
for Respondent.

Filed April 22, 1957. T.C.U.S.

The Tax Court of the United States

Docket Nos. 57291 and 57292

MORTIMER KLINE-GORDON OIL COMPANY,
Petitioners,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent.

TRANSCRIPT OF PROCEEDINGS

April 22, 1957—10:00 A.M.

Before: Honorable Arnold Raum, Judge.

Appearances:

SYDNEY R. REED and
J. W. BULLION,
Appearing for the Petitioners.

MARK TOWNSEND,
Appearing for the Respondent.

The Clerk: The case of Mortimer Kline-Gordon Oil Company.

Will counsel please state your appearances for the record?

Mr. Bullion: Sydney R. Reed and J. W. Bullion for the Petitioners.

Mr. Townsend: Mark Townsend for the Respondent.

The Court: Proceed.

Mr. Bullion: Your Honor, I would like to move first that these two cases be consolidated for hearing.

Mr. Townsend: We agree they should be consolidated.

The Court: The cases will be consolidated.

Mr. Bullion: These cases involve a single issue, your Honor, a question of loss. The loss arose in this way: Mr. Mortimer Kline purchased all of the stock of Gordon Oil Company. After he had acquired all that stock, Gordon Oil Company sold to A. H. Meadows and Tevis F. Morrow all of its assets except cash and accounts receivable, and including two oil and gas leases, and all of the equipment on those leases, and in the assignment of those properties, there was reserved to Gordon a production payment in the full net sum of \$3,600,000.00 over and above all ad valorem taxes or any other taxes measured by production, and plus an additional amount of oil equal to five per cent per annum on the [2*] unliquidated balance of that sum of \$3,600,000.00.

Now, that was true production payments, your Honor, and I think the respondent will agree with us and stipulate that it is not tantamount to an override, and would have been discharged and liquidated substantially prior to the exhaustion of the economic life of the properties.

Mr. Townsend: We will so stipulate.

Mr. Bullion: Now, the interest with this production payment, which was dischargeable out of five per cent of the 85 per cent of the returns accru-

*Page numbering appearing at top of page of original Reporter's Transcript of Record.

ing to the properties was sold for \$25,000.00 in cash. That included the physical equipment in and on the wells and other physical and tangible assets pertaining to the operation of the leases. The basis of the taxpayer, Gordon Oil Company, in that property was some \$332,000.00. It received cash of only \$250,000.00, and in its return, claimed a loss of \$82,000.00 being the difference between its unrecovered cost in the tangible assets and the cash received.

Now, it is the respondent's position that that loss is an allowable loss. This court and the Supreme Court gave that result, we think in the Chock case.

The Court: You mean that is the petitioner's position?

Mr. Bullion: I am sorry; thank you, sir. That is the petitioner's position. [3]

In the Chock case, the proper oil and gas leases were sold with an overriding royalty reserve. That is an interest that lasts for the life of the property, and there was an allocation of the case as to physical equipment and leasehold estate. The allocation showed a loss so far as the physical equipment was concerned, and the Tax Court and the Supreme Court allowed that loss.

Now, as we understand it, the respondent's position is that that unrecovered basis may not be taken as a loss but must become a part of the basis of the retained oil payment, or production payment.

We submit that there is no authority for the proposition of transferring depreciable basis to a depletable asset.

Mr. Townsend: Your Honor, this case comes squarely within a ruling which was made a good number of years ago by the Internal Revenue Service. It's GCM-236223. That ruling was also reestablished after the Chock decision by Revenue Ruling 55-35.

It is the government's position, as Mr. Bullion pointed out, that the unrecovered cost of this equipment becomes a part of the basis of the retained oil payment and may be recovered only by deletion.

It is the government's position that in this type of a situation we have a theoretical loss rather than an [4] actual economic loss, that to allow the loss in this type of situation would open the door to tax avoidance. By retained oil payment, the petitioner has received something definitely of value here. He's having this oil extracted and at no cost to him, and, therefore, his unrecovered basis represents additional cost of the retained payment.

The government will also argue that the petitioner retained an interest in this equipment to the extent that this equipment would be utilized to produce the retained oil payment.

We feel that the Chock case is distinguishable from the instant set of facts. We have a stipulation with three exhibits, 1-A through 3-C, which I offer at this time.

The Court: It will be received.

(The documents above-referred to were received in evidence and marked Respondent's Exhibits Nos. 1-A, 2-B, 3-C.)

Mr. Bullion: Your Honor, we would like to call Mr. Mortimer Kline.

Whereupon,

MORTIMER KLINE

called as a witness for and on behalf of the Petitioners, having been first duly sworn, was examined and testified as follows:

The Clerk: State your name and address, please.

The Witness: Mortimer Kline. My address is 440 Saint Cloud Road, Los Angeles. [5]

Direct Examination

By Mr. Boullion:

Q. Mr. Kline, what is your occupation?

A. I am by profession a lawyer, and I also devote a substantial amount of my time to the oil business as an independent oil operator.

Q. It's stipulated that you bought all the stock of Gordon Oil Company. Did you buy that stock for your own account? A. I did, sir.

Q. Were you acting as a principal?

A. I was.

Q. You were not acting as an agent for anyone?

A. I was not acting as an agent for anyone.

Q. Why did you buy the stock of Gordon?

A. Well, I had hoped to make a profit from the transaction, assuming that I could put all the pieces together in this transaction.

Q. What was the nature of your negotiations in connection with the purchase of that stock?

(Testimony of Mortimer Kline.)

A. The situation was this: There were 32 companies owning properties in the Placerita area of Los Angeles County.

There was a Nelson-Phillips Oil Company, and the Gordon Oil Company, who owned adjoining leases. I had devoted a great deal of time to other properties in the area and saw [6] the possibilities of doing something with these two companies.

Upon inquiry, it developed that I had known Gordon Phillips, and I knew some of the other stockholders in these two companies. It developed the stockholders were in a squabble amongst themselves, and they were planning to put up the necessary money to drill wells. I later found out that the stockholders, some of them, were not talking with one another, and so when it became apparent that it was impossible to buy the assets of these companies, the only way the deal could be made was by buying all the stock which I proceeded to do, and I negotiated over a long period of time, much too long with these various stockholders, and endeavored to make a deal, and found out the companies were very much involved in litigation, and there was a lot of recrimination amongst the stockholders, and one thing and another. I devoted a matter of months, I guess to closing this thing up.

Q. After you bought this stock of Gordon, did you take over control of the company?

A. I did.

Q. What office did you occupy?

A. I occupied the office of president.

(Testimony of Mortimer Kline.)

Q. Were you also a director?

A. I was also a director of the company besides the president.

Q. After you acquired control of Gordon, what did [7] Gordon do with its oil and gas properties and the physical equipment pertaining thereto?

A. Well, we negotiated an agreement with Messrs. Morrow and Meadows in combination of which the Gordon Oil Company sold to Messrs. Meadows and Morrow all of the tangible assets and working interest in its leasehold estate, and reserved——

Mr. Townsend: The respondent moves to strike these conclusions contained in that answer on the ground that it's a conclusion.

The Court: I will not strike the answer. However, I will take into account the fact that the witness is using terminology that might perhaps assume the conclusion that's to be drawn by the Court itself.

The Witness: Well, in any event, the documents were executed, and it is obvious they are the best evidence of what they contain. I agree with you to that extent. I was merely trying to outline in general terms what happened. Maybe I could be more accurate in view of your objection, to say that the Gordon Oil Company did execute documents which in my opinion vested in Messrs. Morrow and Meadows the working interest in the oil and gas leases, and the physicals, and all the other assets of Gordon Oil Company, except cash and accounts receivable and retained in the conveyance, the instru-

(Testimony of Mortimer Kline.)

ment being the best evidence, a production payment of \$3,600,000.00, payable out of 85 per cent of the production [8] from these leases and carrying the additional increments of five per cent in addition to the principal amount of the oil payment, and then almost concurrently with that transaction, the Gordon Oil Company went into dissolution, and conveyed to me the remaining assets of the Gordon Oil Company, including this production payment and simultaneously I sold, I would say Mrs. Kline and I sold—she joined in the conveyance—that production payment at par to a purchaser.

Q. (By Mr. Bullion): Mr. Kline, did Gordon Oil Company, acting through its stockholders and directors, intend by Exhibit 3-C, which is the assignment, you know, to Morrow and Meadows, intend to dispose of all of its interest in the physical equipment in and on the leases and other tangible assets pertaining thereto? A. Yes.

Q. Now, how did you arrive at a consideration of \$250,000.00?

A. That was a product of negotiations and discussions between, I think, principally Morrow and myself, and in my judgment that represented the fair market value of the equity, subject to the oil payment.

Q. Did Mr. Morrow or Mr. Meadows at any time ever have any connection with Gordon Oil Company as an officer, stockholder, director, or otherwise?

A. None whatever. [9]

Q. Did you have any connection whatsoever with

(Testimony of Mortimer Kline.)

the purchaser to whom you sold the production payment? A. None whatever.

Mr. Bullion. That's all.

Cross-Examination

By Mr. Townsend:

Q. Mr. Kline, what was the source of funds to purchase the stock of the Gordon Oil Conmany?

A. I borrowed the money from the First National Bank in Dallas, Texas.

Q. And did you pledge at any time your retained oil payment for that loan?

A. I pledged all of the stock of Gordon Oil Company. I purchased every share of stock of Gordon and signed a pledge agreement with the bank.

Q. Then, when you sold your retained oil interest, you took those funds and paid off the bank loans? A. That is correct.

Q. When was that equipment placed on those leases?

A. Well, the equipment was placed on the leases by Gordon Oil Company prior to the time that I acquired it.

I might say parenthetically, I don't know what effect it would have on this proceeding, but due to the fact that these men were squabbling amongst themselves, the stockholders of the company, they had not kept this equipment up, or their [10] physicals up, in the way that a prudent oil operator would have done at that time, and——

(Testimony of Mortimer Kline.)

The Court: I have not had an opportunity to read the stipulation or the accompanying exhibits. I therefore inquire of counsel whether the stipulation exhibits disclose—the exhibits disclose the age of the equipment, its initial cost, or any other detail with respect to the equipment that might throw some light upon its fair market value as of the time of this alleged sale.

Mr. Bullion: Your Honor, the stipulation shows the original cost, less the reserve for depreciation. It shows when Gordon Oil Company acquired these leases and during a relatively short period of two years drilled and equipped 29 wells on the leases.

The Court: The equipment was placed on the property after the acquisition of the leases?

Mr. Bullion: After the acquisition of the leases, they were undeveloped and it is so stipulated. They were undeveloped when Gordon Oil Company acquired the leases.

Mr. Townsend: I think that's covered in the stipulation.

I have no further questions.

Mr. Bullion: That's all. We rest, your Honor.

The Court: Do you have any further evidence to——

Mr. Townsend: Respondent's case is submitted. [11] Government counsel rests.

The Court: Ordinarily, I prefer consecutive briefs, particularly with the factor in dispute. However, the facts in this case appear to be largely stipulated, and if counsel care to consider conferring

with each other off the record and can agree upon whether they would prefer consecutive or simultaneous briefs, I will adopt whatever suggestion they care to make to me.

Mr. Bullion: I will let you name it, Mr. Townsend.

Mr. Townsend: I would prefer simultaneous briefs, your Honor, subject to Mr. Bullion.

Mr. Bullion: That's agreeable.

The Court: All right, the open brief in 45 days; the reply briefs in 30 days.

The Clerk: June 7th and July 8th, those dates are, gentlemen.

(Whereupon, at 10:30 o'clock, a.m., Monday, April 22, 1957, the hearing in the above-entitled matter was closed.)

Filed May 10, 1957, T.C.U.S. [12]

[Title of Tax Court and Cause.]

Docket Nos. 57291, 57292

FINDINGS OF FACT AND OPINION

Taxpayer, Gordon Oil Company, assigned two producing oil and gas leases and certain tangible property connected therewith. At the time of the assignment Gordon's leasehold costs had been fully depleted, and the tangible property had an adjusted basis of \$332,518.70. Gordon received \$250,000 from the assignors at the time of the assignment, and excepted from the assignment an oil payment in the face amount of \$3,600,000. It claimed a deduction

to the extent that the adjusted basis of the tangible property exceeded the cash payment of \$250,000. Held, in the absence of evidence that a portion of the remaining consideration was not properly allocable to the tangible property, the taxpayer failed to carry its burden of proving that the tangible property was sold for only \$250,000, and the deduction must therefore be disallowed.

SIDNEY R. REED, ESQ., and

J. W. BULLION, ESQ.,

For the Petitioners.

MARK TOWNSEND, ESQ.,

For the Respondent.

Respondent determined deficiencies in the income and excess profits taxes of Gordon Oil Company for the taxable period January 1 to August 31, 1951, in the total amount of \$46,256.88. He determined further that Mortimer A. Kline is the transferee of the assets of that company, and is liable for the deficiencies. At issue is whether Gordon incurred a deductible loss on the assignment of certain tangible property.

Findings of Fact

Some of the facts have been stipulated and are incorporated herein by this reference.

Mortimer A. Kline, hereinafter called "Kline," is an individual residing in Los Angeles, California. He filed his income tax return for the taxable year ended December 31, 1951, with the collector of internal revenue at Los Angeles, California.

Gordon Oil Company, hereinafter called "Gordon," was incorporated under the laws of the State of California on January 20, 1949. It was incorporated for the purpose of acquiring, exploring, developing and producing oil and gas properties, and throughout the period of its existence conducted that business. Gordon filed its income and excess profits tax returns for the taxable period January 1, 1951, to August 31, 1951, with the collector of internal revenue at Los Angeles, California.

Gordon, on March 22, 1949, acquired two undeveloped oil and gas leases in Placerita Field, Los Angeles County, California. Gordon drilled and equipped twenty-nine producing wells on the leaseholds.

During the period from March to May, 1951, Kline purchased all of Gordon's outstanding stock for a total consideration of \$3,962,432.54. Kline purchased the stock for his own account. The purchases were financed by a loan from a bank in Dallas, Texas. All of the stock in Gordon purchased by Kline was pledged as collateral for the loan.

Kline, after acquiring all of the outstanding stock of Gordon, became a director and the president of the company.

After Kline had acquired control of Gordon, Gordon, as a principal, by proper and appropriate corporate action, executed under date of May 7, 1951, an agreement with Tevis F. Morrow (herein-

after called Morrow) and A. H. Meadows (hereinafter called Meadows). Upon the execution of this agreement there was paid to Gordon \$250,000 in cash.

The agreement provided, in part, as follows:

For a valuable consideration, cash in hand paid unto Assignor [Gordon] by Assignee [Morrow and Meadows jointly], the receipt of which is hereby acknowledged, and in consideration of the strict and punctual performance by Assignee, its representatives and assigns, of the covenants herein provided to be kept and performed by Assignee, its representatives and assigns, and, subject to the exception and reservation hereinafter stated, Assignor does hereby grant, bargain, sell, convey, assign, transfer, set over and deliver unto Assignee all interests in lands wherever situated and all easements, permits, licenses, servitudes and rights of every character which are useful or appropriate in exploring for, developing, operating, treating, storing, or transporting oil, gas or other minerals, on the date hereof owned or controlled by Assignor * * * together with all improvements and all the interests of Assignor in all personal property situated upon or used in connection with mining operations on said lands, and all other tangible personal property or interests therein now owned by Assignor, and all other properties and interests in properties of whatsoever kind or character, except accounts receivable and moneys on hand or on deposit; now owned by Assignor.

* * *

Assignor hereby excepts from this conveyance and does hereby reserve unto itself, its successors, representatives and assigns, as a limited overriding royalty interest or production payment free of all development, operation, production and other costs and expenses of any kind whatsoever, subject to the limitation hereinafter set forth, an undivided eighty-five per cent (85%) (hereinafter sometimes referred to as the "reserved share,") of "Assignor's interest," as hereinafter defined, in all of the oil, gas, casinghead gasoline and other hydrocarbons and other minerals in, under and upon, or that may be produced and saved from the lands described in Exhibit 1.¹

(1) As used in the foregoing exception and reservation, the expression "Assignor's interest" means the working interest share of all the oil, gas, casinghead gasoline and other hydrocarbons and other minerals of any kind whatsoever in, under or upon or that may be produced and saved from the lands * * * which, immediately prior to the execution and delivery of this conveyance, was vested in Assignor and which, from and after the effective date hereof, but for the foregoing exception and reservation, would accrue or belong to Assignee, its representatives and assigns, by virtue of this conveyance.

* * *

¹The properties described in Exhibit 1 were the leaseholds held by Gordon prior to this agreement.

(3) The foregoing exception and reservation shall be effective as of the effective date of this conveyance.

(4) The foregoing exception and reservation shall remain in full force and effect until such time as Assignor, its successors, representatives and assigns, shall have received out of the net proceeds of the sale of the "reserved share" of the oil, gas, casinghead gasoline and other hydrocarbons and other minerals of any kind whatsoever the full net sum of Three Million Six Hundred Thousand Dollars (\$3,600,000), in cash; plus

(a) an amount equal to the aggregate of all severance and gross production taxes and all other taxes and assessments of any kind whatsoever levied upon or assessed against or measured by the production accruing to the "reserved share" and all ad valorem taxes and all other taxes and assessments of any kind whatsoever levied upon or assessed against the property interests hereby excepted and reserved, to the extent, but only to the extent, that any of such taxes or assessments are paid by Assignor; plus

(b) an additional amount equal to interest from May 1, 1951, on the unliquidated balance of the aggregate of said sum and amount at the rate of five per cent (5%) per annum computed monthly on the basis of a 360-day year, 30-day month, on the first day of each month, beginning June 1, 1951.

The net proceeds of the sale of the "reserved share" of the oil, gas, casinghead gasoline and other hydrocarbons and other minerals of any kind whatsoever, shall be applied each month by Assignor, its successors, representatives and assigns, first, to the amount equal to interest as specified in subparagraph (4)(b) above; then to the amount equal to the aggregate of all taxes and assessments that are paid by Assignor as specified in subparagraph (4)(a) above; and then to the sum first specified in this paragraph (4).

(5) It is further understood that upon the aggregate sum and amounts above provided for being paid to and received by Assignor, its successors, representatives and assigns, all rights, titles, and interests hereby reserved unto Assignor shall terminate and thereupon the fractional interest hereby reserved shall be vested in Assignee, its representatives and assigns, free and clear of the exception and reservation herein made, and to evidence the fact, Assignor, its successors, representatives and assigns, will at any time and from time to time execute and deliver on request all necessary and appropriate acquittances.

(6) It is understood that Assignee shall never personally be liable for payment of the above described production payment and that Assignor and its successors, representatives and assigns, shall look exclusively to the oil, gas and other minerals reserved herein for the payment thereof, and that Assignor, its successors, representatives and assigns,

shall have no lien whatsoever for the payment of said production payment, provided that nothing in this paragraph contained shall impair the obligation of Assignee under subparagraphs (g), (h) and (i) of Paragraph 10 hereof to account to Assignor, its successors, representatives and assigns, for funds which come into the hands of Assignee and which are attributable to the "reserved share."

(7) The above reservation and exception shall in no sense extend to any lease equipment or other personal property which is included in this sale, all of which equipment and personal property is being sold to Assignee without reservation.

(8) As a further consideration for this assignment Assignee for itself, its representatives and assigns, covenants and agrees with Assignor, its successors, representatives and assigns, until such time as the aggregate sum and amounts above provided for have been fully paid to and received by Assignor, its successors, representatives and assigns, in a good and workmanlike manner, to develop and operate or cause to be so developed and operated, the oil and gas properties described in Exhibit 1, and to produce oil and gas from the respective wells located on the lands described in Exhibit 1, so long as oil, gas or other hydrocarbons can be produced therefrom in paying quantities, and to comply with all the terms and provisions, both express and implied, of the oil, gas and mineral lease described in Exhibit 1, subject to the proviso stated in the next succeeding sentence hereof. If Assignee elects

to abandon or release any specific portion or portions of the properties described in Exhibit 1 from the operation of such oil, gas and mineral lease, in accordance with the provisions contained in such lease, and thereby be relieved from further obligation as to the property which Assignee desires to abandon or release, Assignee prior to such abandonment or relinquishment shall give to Assignor, its successors, representatives and assigns, thirty (30) days' written notice of such intention, and upon written request of Assignor, its successors, representatives and assigns, or any of them, within said period of thirty (30) days, Assignee, its representatives and assigns, shall execute to Assignor, its successors, representatives and assigns, or such of them as may make said written request, or to the nominee of such of them as may make said written request, a reassignment of the interest in the portion of said lease which Assignee desires to abandon or release, by recordable instrument, in which event Assignee shall be relieved from further obligation with reference to the portion so reassigned, but thereby the amount of the aforesaid production payment and the fraction of the production from the remaining lands described in Exhibit 1 out of which it is dischargeable shall not be reduced, affected or impaired. In the event Assignor, its successors, representatives and assigns, do not desire a reassignment of said interest, then Assignor, its successors, representatives and assigns, shall join in the execution of a recordable release of said portion of said property in accordance with the provisions of said

lease, but thereby the amount of the aforesaid production payment and the fraction of the production from the remaining lands described in Exhibit 1 out of which it is dischargeable shall not be reduced, affected or impaired.

* * *

(10) As a further consideration for this assignment, Assignee for itself, its representatives and assigns, covenants and agrees with Assignor, its successors, representatives and assigns, until such time as the aggregate sum and amounts above provided for have been fully paid, to

(a) Deliver at its own expense in quadruplicate to Assignor, its successors, representatives and assigns, on or before November 15 in each year, beginning with the year 1951, a report prepared by a mutually acceptable geologist, setting forth as of the preceding October 1, an estimate of reserves of recoverable oil, gas and other minerals properly allocable to the interests described in Exhibit 1, the future income to be derived from the sale of such recoverable reserves at prices existing as of October 1 of each year (future income to be set forth by years for a six (6) year period and for future years thereafter as a single period); and such other geological and scientific data as Assignor, its successors, representatives and assigns, shall reasonably request;

(b) Obtain from time to time and at any time, on request of Assignor, its successors, representa-

tives and assigns, from persons approved in writing by them, any and all geological, engineering and other scientific data and reports regarding the properties described in Exhibit 1 deemed necessary or appropriate by Assignor, its successors, representatives and assigns, and to deliver the same unto Assignor, its successors, representatives and assigns;

(c) Deliver in quadruplicate to Assignor, its successors, representatives and assigns, on or before the last day of each month, beginning with the month of June, 1951, a production report in a form approved by Assignor, its successors, representatives and assigns, setting forth the results of operations of the properties described in Exhibit 1 during the preceding calendar month;

(d) Keep true and correct books and records showing the production of all oil, gas, casinghead gasoline and other hydrocarbons and other minerals of any kind whatsoever from the lands described in Exhibit 1 and all necessary information with respect to such production, to show and determine the "reserved share" of such production;

(e) Permit Assignor, its successors, representatives and assigns, and the accredited agents and nominees of any of them, at all times to go upon, examine, inspect and remain on all lands described in Exhibit 1, and to examine, audit and make excerpts from any and all books and records of Assignee, its representatives and assigns, regarding the lands and properties described in said exhibit and the production from said lands;

(f) Deliver to the credit of Assignor, its successors, representatives and assigns, into the pipe lines to which the wells may be connected, free of all charges, the "reserved share" of the oil produced and saved from the lands described in Exhibit 1;

(g) Account to Assignor, its successors, representatives and assigns, for the net proceeds of the sale of the "reserved share" of the gas, casinghead gasoline and other hydrocarbons other than oil produced from the lands described in Exhibit 1;

(h) Pay to Assignor, its successors, representatives and assigns, the proceeds of the sale of the "reserved share" of the oil produced and saved from any lands described in Exhibit 1, which on the date hereof is subject to a crude oil sales contract under the terms of which Assignor is not entitled to be paid direct by the purchaser of such production for the "reserved share";

(i) Account to Assignor, its successors, representatives and assigns, for the "reserved share" of all gas produced from any lands described in Exhibit 1, which on the date hereof is subject to a gasoline extraction contract under the terms of which Assignor is not entitled to be paid direct by the purchaser of such production for the "reserved share";

(j) Pay all taxes and assessments of any kind whatsoever levied upon or assessed against or measured by the production by Assignee of oil, gas,

casinghead gasoline and other hydrocarbons or other minerals of any kind whatsoever from the lands described in Exhibit 1, and all ad valorem taxes and all other taxes and assessments of any kind whatsoever levied upon or assessed against the lands and properties described in Exhibit 1, which are due and payable after the effective date hereof;

(k) Comply with all laws and regulations pertaining to the exploration and development of the lands described in Exhibit 1 and the conduct of all operations under the oil and gas mining lease described in said exhibit;

(l) Pay all costs and expenses incurred in developing and operating the lands described in Exhibit 1 and not permit any mechanic's, materialmen's, or laborer's liens to attach to said lands or any interest therein or any personal property thereon.

(11) An event of default will occur upon the happening of any one or more of the following events:

(a) Should Assignee, its representatives or assigns, in any respect fail strictly and promptly to keep and perform or to observe any one or more of the conditions, obligations, covenants, promises and undertakings herein provided to be observed, kept and performed by it, and such failure to observe, keep and perform any one or more of such conditions, obligations, covenants, promises and undertakings continues for thirty (30) days after demand for performance is made in writing on Assignee,

its representatives and assigns, or any one or more of them, by Assignor or those successors, representatives and assigns of Assignor at the time holding at least an undivided two-thirds ($\frac{2}{3}$) of the rights, titles and interests hereby reserved unto Assignor; or

(b) Should there be appointed a receiver of Assignee, its representatives or assigns, or of any of its properties; or

(c) Should Assignee, its representatives or assigns, be adjudicated an involuntary bankrupt, by a court of competent jurisdiction; or

(d) Should Assignee, its representatives or assigns, apply to be adjudicated a bankrupt; or

(e) Should an assignment be made by Assignee, its representatives or assigns, for the benefit of creditors; or

(f) Should Assignee, its representatives or assigns, fail for sixty (60) days after any money judgment against it shall have become final, to pay such judgment.

On the occurrence of any event of default, Assignor or those successors, representatives and assigns of Assignor at the time holding at least an undivided two-thirds ($\frac{2}{3}$) of the rights, titles and interests hereby reserved unto Assignor, shall thereupon or thereafter have the continuing and absolute right, privilege and option, until the limited overriding royalty interest or production payment

herein reserved has been fully paid, liquidated and discharged, to take over, hold, manage, operate and develop all or any part of the interest of Assignee, its representatives and assigns, in the oil, gas and mineral lease and oil and gas mining leasehold estate described in Exhibit 1 and the lands and properties covered thereby, together with the interest of Assignee in all machinery and equipment of every kind and character located on said lands or which may be used or useful in the operation of said oil, gas and mineral lease, and the further right to sell all of the oil, gas and other minerals of every kind whatsoever produced, saved, derived, obtained or accruing alike to the interest of Assignor and the interest of Assignee thereunder. If such right, privilege and option be exercised, Assignor, its successors, representatives and assigns, shall not be liable to Assignee, its representatives and assigns, or to anyone claiming or to claim under them, or any of them, for any action or failure to act except as to any such act or omission which is the result of actual bad faith.

If the aforesaid right, privilege and option is exercised, Assignor, its successors, representatives and assigns, shall be entitled to collect the proceeds of the oil, gas and other minerals accruing both to the interest hereby assigned and the interest hereby reserved unto Assignor. It is understood that no duty is hereby imposed on Assignor to exercise such right, privilege and option, but if it is exercised, then for all costs incurred in the preservation, pro-

tection, operation and development of said properties, and in the discharge of any obligations appertaining thereto, together with interest at the rate of six per cent (6%) per annum, computed monthly on the first day of each month from the respective dates of outlay on the unliquidated balance of such costs. Assignor, its successors, representatives and assigns, shall be entitled to reimbursement from the proceeds of production accruing to the interest that by this assignment is vested in Assignee, and for the balance, if any, Assignor shall account to Assignee.

If such right, privilege and option is exercised, it is understood that Assignor, its successors, representatives and assigns, shall have no title or interest of any character in the personal property and equipment on the lands described in Exhibit 1 and in the properties and interests in properties conveyed hereby, and shall have solely the entire use of such personal property and equipment, free of any rental costs or other charges whatsoever, for the purpose of operating said premises, and that all such properties shall at all times remain the property of Assignee. Said right, privilege and option may be exercised at any time and from time to time after occurrence of an event of default by Assignor or those successors, representatives and assigns of Assignor at the time holding at least an undivided two-thirds ($\frac{2}{3}$) of the rights, titles and interests hereby reserved, communicating a desire to take over possession of said properties to Assignee, its representatives or assigns, or any one or more of them, whereupon As-

signee, its representatives and assigns, shall immediately deliver possession of said premises and do all other acts and things necessary or appropriate to be done to make such right, privilege and option effective. It is further understood that said right, privilege and option is a continuing option and that no exercise of such right, privilege and option shall be held to exhaust said right, privilege and option, but the same may be exercised at any time and from time to time until the limited overriding royalty interest or production payment herein reserved shall have been fully liquidated and paid.

* * *

The excepted interest reserved by Gordon in the agreement with Morrow and Meadows would be liquidated in full substantially prior to the exhaustion of the economic life of the leases and was not tantamount to an overriding royalty.

At the time of the agreement with Morrow and Meadows, Gordon had fully depleted its leasehold cost in both of the leases, but had on hand tangible assets pertaining to the operation of the leases, with a then adjusted basis of \$332,518.70. These assets, their respective costs to Gordon, adjustments due to depreciation, and their adjusted basis were as follows, as of the date of the agreement:

Physical equipment in wells	\$159,748.52
Buildings	8,147.12
Machinery and equipment	5,414.27
Pipelines	18,909.76
Pumping equipment	94,745.87

Reservoirs and tanks	\$ 25,725.35
Autos and trucks	7,200.05

Total	\$319,890.94
Less reserve for depreciation	37,429.80

Adjusted basis of fixed assets	\$282,461.14
Crude oil inventories—at book amount	13,215.15
Materials and supplies—at book amount	34,204.04
Electrical service deposits	2,638.37

Total Adjusted Basis of Prop- erties Sold	\$332,518.70
--	--------------

Kline, on behalf of Gordon, negotiated the sale of the working interest in the leasehold estates and the sale of all of its other properties except cash and accounts receivable with Morrow and Meadows. Morrow and Meadows never had any connection with Gordon as an officer, stockholder, director or otherwise.

Following the execution of the agreement with Morrow and Meadows, Gordon was dissolved and all of its assets and property then on hand, including the excepted interest, were distributed in complete liquidation of the company to Kline in cancellation and redemption of all of the outstanding stock of the company.

After Gordon was dissolved and liquidated, Kline, as a principal, sold the excepted interest which he

had received in liquidation of Gordon for \$3,600,000, to a purchaser with whom he never had any prior connection. Following the liquidation of Gordon and the sale of the excepted interest, Kline paid off the indebtedness he had incurred with the Dallas bank in connection with his purchase of all of the outstanding capital stock of Gordon.

Kline was the transferee of the assets of Gordon upon its complete liquidation in August, 1951.

Gordon as a result of the transaction with Morrow and Meadows claimed a loss deduction of \$82,518.70. Respondent disallowed the deduction.

Opinion

Raum, Judge:

If the transaction before us were simply the sale of tangible property for \$250,000, then certainly the seller would have sustained a deductible loss measured by the excess of its adjusted basis (\$332,518.70) over the sales price. But the difficulty with petitioners' position is that the record fails to support their assumption that the tangible property was sold for \$250,000, and there is no convincing evidence that the consideration passing to the seller in respect of the tangible property was less than its adjusted basis.

The cash payment of \$250,000 was part of an integrated transaction involving an assignment of the working interests in two producing oil and gas leases along with all related assets except cash and ac-

counts receivable. The assignment of the working interests, however, was made subject to a reserved production payment in the amount of \$3,600,000 out of eighty-five per cent of the oil, gas or other minerals produced. The reservation also included an amount equal to interest at the annual rate of five per cent upon the unliquidated balance and, in addition, all production and ad valorem taxes paid by the assignor. The assignees covenanted to develop and operate the oil and gas properties in a good and workmanlike manner and to produce oil and gas so long as they could be produced in paying quantities, except to the extent that the assignees should abandon or release any specific portions of the properties by reassignment to the assignor. The instrument of assignment contained comprehensive provisions, including certain visitorial privileges and rights of inspection, calculated to enable the assignor to assure itself of the assignees' compliance with their various covenants. These covenants were plainly of considerable value to the assignor.

Nowhere in the instrument of assignment is there any language indicating either explicitly or by implication that the \$250,000 cash payment was the sole consideration for the tangible property. A reading of the instrument as a whole persuasively suggests that it represented a "package deal", and we have no way of knowing on the record before us whether a proper allocation of the total consideration running to the assignor in respect of the tangible property includes something more than the \$250,000 cash payment.

Obviously, the parties could easily have varied the amount of the immediate cash payment with appropriate accompanying changes in the consideration relating to the so-called reserved payment. Or, they might even have eliminated the immediate cash payment entirely while at the same time providing for increased consideration in respect of the other covenants. Could it fairly be said in such circumstances that the tangible property was being sold for nothing? The answer is plainly no. The transaction was a matter of negotiation between the parties, and it was entirely up to them as to whether there would be any immediate cash payment or the amount thereof. And if there was a cash payment, as in the present case, there must be some satisfying proof that it represented the sole consideration for the tangible assets before the assignor can succeed in its claim that it suffered a deductible loss, measured by the excess of the adjusted basis over the cash payment. Otherwise, merely by juggling the cash payment and the so-called retained interest, it would be able to obtain a deduction on account of a loss that it in fact did not sustain. We do not believe that such result was ever intended by the Congress.

Our problem is to determine whether the consideration properly allocable to the tangible property was less than its adjusted basis. Petitioners merely assert, without proof, that the consideration consisted solely of the \$250,000 cash payment. The burden of proof, however, was upon them, and they have completely failed to carry it. There is no convincing evi-

dence that the tangible assets were worth less than their adjusted basis at the time of sale, or that the seller negotiated a deal whereby the total consideration receivable in respect of such assets was less than their adjusted basis. One who claims a deduction on account of loss must establish his right to it.

The Government's position is supported by administrative practice of at least some fifteen years' standing. G.C.M. 23623, 1943 Cum. Bull. 313. See also Rev. Rul. 55-35, 1955-1 Cum. Bull. 286. Petitioners' reliance upon *Choate vs. Commissioner*, 324 U.S. 1, is misplaced. No issue was raised in that case as to whether a loss was actually sustained; that fact was assumed, and the Supreme Court explicitly noted that no question was "presented concerning the allocation of a portion of the purchase price to the equipment," 324 U.S. at p. 4. Cf. *Theoretical "Loss" On Equipment Arising From Producing Leasehold Assignment*, 4 *Oil and Gas Tax Quarterly* 1, 9-10. The very heart of the present case is whether a loss was in fact sustained, and on that question petitioners have failed to carry the burden of proof.

In Docket 57291 petitioner Kline does not contest his liability as transferee.

Decisions will be entered for the respondent.

Filed: March 13, 1958.

The Tax Court of the United States
Washington

Docket No. 57291

MORTIMER A. KLINE,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DECISION

Pursuant to the determination of the Court, as set forth in its Findings of Fact and Opinion, filed March 13, 1958, it is

Ordered and Decided: That there is an unpaid liability in the amount of \$46,256.88, together with interest thereon as provided by law, on the part of this petitioner as transferee of the assets of Gordon Oil Company for deficiencies in income and excess profits taxes for the taxable period January 1, 1951, to August 31, 1951.

[Seal] /s/ ARNOLD RAUM,
Judge.

Entered: March 19, 1958.

Served: March 20, 1958.

The Tax Court of the United States
Washington

Docket No. 57292

GORDON OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

DECISION

Pursuant to the determination of the Court, as set forth in its Findings of Fact and Opinion, filed March 13, 1958, it is

Ordered and Decided: That there is an unpaid liability in the amount of \$46,256.88, together with interest thereon as provided by law, on the part of Mortimer A. Kline as transferee of the assets of Gordon Oil Company for deficiencies in income and excess profits taxes for the taxable period January 1, 1951, to August 31, 1951.

[Seal] /s/ ARNOLD RAUM,
Judge.

Entered: March 19, 1958.

Served: March 20, 1958.

[Title of Tax Court and Cause.]

Docket No. 57292

ORDER VACATING DECISION
AND DECISION

For cause, it is

Ordered: That the decision entered in this proceeding on March 19, 1958, be and the same is hereby vacated; and it is further

Ordered and Decided: That there are deficiencies in income and excess profits tax for the taxable period January 1, 1951, to August 31, 1951, in the total amount of \$46,256.88.

[Seal] /s/ ARNOLD RAUM,
Judge.

Entered: March 26, 1958.

Served: March 26, 1958.

In the United States Court of Appeals for the
Ninth Circuit

Tax Court Docket No. 57291

[Title of Cause]

PETITION FOR REVIEW OF DECISION OF
THE TAX COURT OF THE UNITED
STATES

To the Honorable Judges of the United States
Court of Appeals for the Ninth Circuit:

Mortimer A. Kline, the Petitioner in this cause,
by the undersigned attorney, hereby files its Peti-

tion for a review by the United States Court of Appeals for the Ninth Circuit of the decision by the Tax Court of the United States entered on March 19, 1958, Tax Court Docket No. 57291, determining that Petitioner is liable as transferee of the assets of Gordon Oil Company for deficiencies in income and excess profits taxes for the taxable period January 1, 1951, to August 31, 1951, in the amount of \$46,256.88, and respectfully shows:

I.

Jurisdiction and Venue

The Petitioner on Review, Mortimer A. Kline, was the Petitioner in the Tax Court Proceeding. The Petitioner was and is a resident of, and was and is domiciled in Los Angeles, California. His office in Los Angeles is 812 General Petroleum Building, 612 South Flower Street, Los Angeles, 17, California. His return for the period here involved was filed with the Collector of Internal Revenue for the Sixth District of California, such District being located within the jurisdiction of the United States Court of Appeals for the Ninth Circuit.

The Petitioner files this Petition pursuant to the provisions of Sections 7482 and 7483 of the Internal Revenue Code of 1954.

II.

Nature of the Controversy

The controversy involved the proper determination of Petitioner's liability as transferee of all the

assets of Gordon Oil Company for federal income and excess profit taxes of Gordon Oil Company.

During the taxable period from January 1, 1951, to August 31, 1951, Gordon Oil Company, a California corporation with principal office at 812 General Petroleum Building, 612 South Flower Street, Los Angeles 17, California, sold all of its working interest in two oil and gas leases, and all of its other properties and interests in properties, except cash and accounts receivable, for a cash consideration of \$250,000.00. The "other properties" referred to above were tangible assets which were either in, on, or pertaining to the operation of the oil and gas leases. In the assignment of its working interest in the leases, Gordon reserved unto itself, its successors and assigns, a production payment in the sum of \$3,600,000.00, plus certain additional amounts, all of which was payable out of the proceeds of 85% of the runs accruing to the interest in the leases sold by Gordon. Gordon had no depletable basis at the time of the sale in the leasehold assets, but had an adjusted basis in the tangible assets which it sold of \$332,518.70. It claimed a loss on its return for the period here involved on the sale of such tangible assets of \$82,518.70, such loss being determined by deducting the consideration of \$250,000.00 from the aforesaid basis. Respondent disallowed the loss and determined a deficiency in income and excess profits taxes against Gordon of \$46,256.88 for the taxable period from January 1, 1951, to August 31, 1951.

After the sale of the working interest in the leases, and all of the tangible assets, Gordon was dissolved and all of its assets and property then on hand, including the reserved production payment, were distributed to Mortimer A. Kline, its sole stockholder, in complete cancellation and redemption of all of its outstanding stock. Kline is the Petitioner in this case. The Tax Court case involving the basic deficiency against Gordon Oil Company is a companion case to the instant case and is styled *Gordon Oil Company v. Commissioner of Internal Revenue*, Docket No. 57292. The Gordon case and the instant case were consolidated for hearing in the Tax Court and the decision in both cases was adverse to both Petitioners. The Gordon case decision is also being appealed. A Motion for consolidation of the two cases on appeal is being filed with the Court of Appeals for the Ninth Circuit.

The Petitioner's position is that Gordon sustained a recognizable loss of \$82,518.70 on its sale of the properties above referred to, and that accordingly it is liable for no deficiency in income and excess profits taxes. The Respondent's position was that Gordon had not sustained a recognizable loss on such sale, and that accordingly it was liable for a deficiency in the amount of \$46,256.88.

The Tax Court upheld the Commissioner and held that Gordon had not sustained its burden of proof to establish the claimed loss. Since Petitioner does not contest the fact that he is the transferee of

Gordon's assets, the Tax Court found against Petitioner and found that he was liable as transferee.

III.

Assignments of Error

The Petitioner assigns as error the following acts and omissions of the Tax Court of the United States:

1. The Tax Court erred in holding and deciding that there was a deficiency in income and excess profits taxes due from Gordon Oil Company in the amount of \$46,256.88.

2. The Tax Court erred in failing to find that Gordon Oil Company sustained a recognizable loss in the amount of \$82,518.70.

3. The Tax Court's finding that Gordon Oil Company failed to sustain its burden of proof to establish the loss of \$82,518.70 is clearly erroneous and not supported by the evidence.

4. Since the Tax Court erred as above in the Gordon case, it erred in holding Petitioner liable on the basis of transferee liability.

5. The Tax Court's decision is contrary to law.

Wherefore, the Petitioner prays that:

1. The United States Court of Appeals for the Ninth Circuit review, in this proceeding, the decision of the Tax Court entered March 19, 1958.

2. The decision of the Tax Court be reversed.

3. That Petitioner be granted such other and further relief as the Court may determine just and proper.

Respectfully submitted,

/s/ J. W. BULLION,

Attorney for Petitioner.

Duly verified.

Received and filed June 9, 1958, T.C.U.S.

[Title of Court of Appeals and Cause.]

Tax Court Docket No. 57291

NOTICE BY PETITIONER OF FILING
OF PETITION FOR REVIEW

To: Chief Counsel, Internal Revenue Service,
Washington, D. C.

You are hereby notified that the Petitioner in the above-captioned case did on the 6th day of June, 1958, mail to the Clerk of the Tax Court of the United States at Washington, D. C., for filing in said court, a Petition for Review by the United States Court of Appeals for the Ninth Circuit, of the decision of said Tax Court heretofore rendered in the above-entitled case. Copy of the Petition for Review as filed is hereto attached and served upon you.

Dated the 6th day of June, 1958.

/s/ J. W. BULLION;

Attorney for Petitioner.

Receipt of copy acknowledged.

Received and filed June 9, 1958, T.C.U.S.

In the United States Court of Appeals
for the Ninth Circuit
Tax Court Docket No. 57292

[Title of Cause.]

PETITION FOR REVIEW OF DECISION OF
THE TAX COURT OF THE UNITED STATES

To the Honorable Judges of the United States
Court of Appeals for the Ninth Circuit:

Gordon Oil Company, the Petitioner in this cause, by the undersigned attorney, hereby files its Petition for a review by the United States Court of Appeals for the Ninth Circuit of the decision by the Tax Court of the United States entered on March 26, 1958, Tax Court Docket No. 57292, determining a deficiency in the Petitioner's federal income taxes and excess profits taxes for the period January 1, 1951, to August 31, 1951, in the amount of \$46,256.88, and respectfully shows:

I.

Jurisdiction and Venue

The Petitioner on review, Gordon Oil Company, was the Petitioner in the Tax Court proceeding.

Petitioner was a corporation organized under and by virtue of the laws of the State of California, with principal office at 812 General Petroleum Building, 612 South Flower Street, Los Angeles 17, California. Return for the period here involved was filed with the Collector of Internal Revenue for the Sixth District of California, such District being located within the jurisdiction of the United States Court of Appeals for the Ninth Circuit. This proceeding was brought on behalf of Petitioner by its Directors, pursuant to authority conferred upon them by law as Directors of a dissolved corporation.

The Petitioner files this Petition pursuant to the provisions of Sections 7482 and 7483 of the Internal Revenue Code of 1954.

II.

Nature of the Controversy

The controversy involves the proper determination of the Petitioner's liability for federal income and excess profits taxes.

During the taxable period from January 1, 1951, to August 31, 1951, Petitioner, Gordon Oil Company, sold all of its working interest in two oil and gas leases, and all of its other properties and interests in properties, except cash and accounts receivable, for a cash consideration of \$250,000.00. The "other properties" referred to above were tangible assets which were either in, on, or pertaining to the operation of the oil and gas leases. In the assignment of its working interest in the leases, Gordon

reserved unto itself, its successors and assigns, a production payment in the sum of \$3,600,000.00, plus certain additional amounts, all of which was payable out of the proceeds of 85% of the runs accruing to the interest in the leases sold by Gordon. Gordon had no depletable basis at the time of the sale in the leasehold assets, but had an adjusted basis in the tangible assets which it sold of \$332,518.70. It claimed a loss on its return for the period here involved on the sale of such tangible assets of \$82,518.70, such loss being determined by deducting the consideration of \$250,000.00 from the aforesaid basis. Respondent disallowed the loss and determined a deficiency in income and excess profits taxes against Gordon of \$46,256.88 for the taxable period from January 1, 1951, to August 31, 1951.

After the sale of the working interest in the leases, and all of the tangible assets, Gordon was dissolved and all of its assets and property then on hand, including the reserved production payment, were distributed to Mortimer A. Kline, its sole stockholder, in complete cancellation and redemption of all its outstanding stock. The Respondent determined a deficiency against Kline as transferee of Gordon's assets in the aforesaid amount of \$46,256.88; and the Tax Court case involving that deficiency is a companion case to the instant case, and is styled *Mortimer A. Kline v. Commissioner of Internal Revenue*, Docket No. 57291. The Kline case and the instant case were consolidated for hearing in the Tax Court, and the decision in both

cases was adverse to Petitioners. The Kline case decision is also being appealed. A Motion for consolidation of the two cases on appeal is being filed with the Court of Appeals for the Ninth Circuit.

The Petitioner's position is that Gordon sustained a recognizable loss of \$82,518.70 on its sale of the properties above referred to, and that accordingly it is liable for no deficiency in income and excess profits taxes. The Respondent's position was that Gordon had not sustained a recognizable loss on such sale, and that accordingly it was liable for a deficiency in the amount of \$46,256.88.

The Tax Court upheld the Respondent and held that the Petitioner had not sustained its burden of proof to establish the claimed loss.

III.

Assignments of Error

The Petitioner assigns as error the following acts and omissions of the Tax Court of the United States:

1. The Tax Court erred in holding and deciding that there was a deficiency in income and excess profits taxes due from the Petitioner in the amount of \$46,256.88.

2. The Tax Court erred in failing to find that Petitioner sustained a recognizable loss in the amount of \$82,518.70.

3. The Tax Court's finding that the Petitioner failed to sustain its burden of proof to establish

the loss of \$82,518.70 is clearly erroneous and not supported by the evidence.

4. The Tax Court's decision is contrary to law.

Wherefore, the Petitioner prays that:

1. The United States Court of Appeals for the Ninth Circuit review, in this proceeding, the decision of the Tax Court of the United States entered March 26, 1958.

2. The decision of the Tax Court be reversed.

3. That Petitioner be granted such other and further relief as the Court may determine just and proper.

Respectfully submitted,

/s/ J. W. BULLION,

Attorney for Petitioner.

Duly verified.

Received and filed June 9, 1958, T.C.U.S.

[Title of Court of Appeals and Cause.]

Tax Court Docket No. 57292

NOTICE BY PETITIONER OF FILING
OF PETITION FOR REVIEW

To: Chief Counsel, Internal Revenue Service,
Washington, D. C.

You are hereby notified that the Petitioner in the above-captioned case did on the 6th day of June,

1958, mail to the Clerk of the Tax Court of the United States at Washington, D. C., for filing in said court, a Petition for Review by the United States Court of Appeals for the Ninth Circuit, of the decision of said Tax Court heretofore rendered in the above-entitled case. Copy of the Petition for Review as filed is hereto attached and served upon you.

Dated the 6th day of June, 1958.

/s/ J. W. BULLION,
Attorney for Petitioner.

Service of copy acknowledged.

Received and filed June 9, 1958, T.C.U.S.

Tax Court of the United States

Docket Nos. 57291 and 57292

MORTIMER A. KLINE,
GORDON OIL COMPANY,

Petitioners on Review,

vs.

COMMISSIONER OF INTERNAL REVENUE,
Respondent on Review.

ORDER ENLARGING TIME

For cause, it is

Ordered: That the time for filing the record on review and docketing the petitions for review in the

United States Court of Appeals for the Ninth Circuit is extended to September 7, 1958.

[Seal] /s/ J. E. MURDOCK,
Judge.

Dated: Washington, D. C., July 7, 1958.

Served July 9, 1958.

[Title of Tax Court and Cause.]

Docket Nos. 57291 and 57292

CERTIFICATE

I, Howard P. Locke, Clerk of the Tax Court of the United States, do hereby certify that the foregoing documents, 1 to 20, inclusive, constitute and are all of the original papers as called for by the "Designation of Contents of Record on Review", including Joint exhibits 1-A thru 3-C, attached to the Stipulation of Facts, in the cases before the Tax Court of the United States docketed at the above numbers and in which the petitioners in the Tax Court have filed petitions for review as above numbered and entitled, together with a true copy of the docket entries in said Tax Court case as the same appear in the official docket in my office.

In testimony whereof, I hereunto set my hand and affix the seal of the Tax Court of the United States,

at Washington, in the District of Columbia, this
23rd of July, 1958.

[Seal] /s/ HOWARD B. LOCKE,
Clerk, Tax Court of the
United States.

[Endorsed]: No. 16150. United States Court of
Appeals for the Ninth Circuit. Mortimer A. Kline,
Petitioner, vs. Commissioner of Internal Revenue,
Respondent, and Gordon Oil Company, Petitioner,
vs. Commissioner of Internal Revenue, Respondent.
Transcript of Record. Petition to Review Decisions
of Tax Court of the United States.

Filed: August 8, 1958.

Docketed: August 21, 1958.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

In the United States Court of Appeals for the
Ninth Circuit

No. 16150

MORTIMER A. KLINE,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

GORDON OIL COMPANY,

Petitioner,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Respondent.

JOINT MOTION FOR CONSOLIDATION
OF CASES ON APPEAL

The two above captioned cases were consolidated for hearing in the Tax Court. Gordon Oil Company vs. Commissioner of Internal Revenue, Docket No. 57292, is the basic case, and Mortimer A. Kline vs. Commissioner of Internal Revenue is ancillary to the basic case in that it involves the transferee liability of the sole stockholder of Gordon Oil Company with respect to the deficiency assessed against Gordon Oil Company which is under review in the Gordon Oil Company case. It has been stipulated by the parties that Kline was the transferee of the assets of Gordon upon its complete liquidation, and

Kline does not contest his liability as transferee if Gordon Oil Company is liable for the deficiency.

In view of the foregoing, it is respectfully moved and requested that this Court order the consolidation of the two captioned cases for purposes of this appeal and that it order the Clerk of the Tax Court of the United States to certify and transmit to this Court a single, consolidated transcript of Record on Review in the above captioned proceedings; and that it further order that these proceedings be consolidated for briefing, hearing, argument and decision.

/s/ J. W. BULLION,

Attorney for Petitioner.

No Objection,

/s/ ARCH M. CANTRALL, C.R.M.

Chief Counsel, Internal Revenue Service, Counsel
for Respondent.

[Endorsed]: Filed June 19, 1958.

[Title of Court of Appeals and Cause.]

Docket No. 57292

ORDER RE CONSOLIDATION OF CASES FOR
PURPOSES OF APPEAL

Now, on consideration of the Joint Motion filed herein by counsel for the respective parties to the above-entitled proceedings, it is Ordered:

1. That the Clerk of the Tax Court of the United States shall certify and transmit to this Court a single, consolidated transcript of Record on Review in the above-entitled proceedings; and that these proceedings be and they are hereby consolidated for briefing, hearing, argument, and decision.

2. That the Clerk of this Court transmit a certified copy of this Order to the Clerk of the Tax Court of the United States to be by him incorporated in the transcript of Record on Review herein.

Dated this 19th day of June, 1958.

/s/ ALBERT LEE STEPHENS,
Chief Circuit Judge.

[Endorsed]: Filed June 19, 1958.

[Title of Court of Appeals and Cause.]

STATEMENT OF POINTS UPON WHICH PETITIONERS RELY AND DESIGNATION OF RECORD MATERIAL THERETO

To the Honorable Judges of the United States Court of Appeals for the Ninth Circuit:

1. The Petitioners in the above-entitled cases, which have been consolidated for briefing, hearing, argument and decision, rely upon the following points:

(a). Petitioner Gordon Oil Company, on the sale of its working interest in two oil and gas leases, sub-

ject to a reserved production payment, and all of its other properties except cash and accounts receivable which other properties had an adjusted basis of \$332,518.70 for a consideration of \$250,000.00, sustained a deductible ordinary loss of \$82,518.70.

(b). The finding of the Tax Court of the United States that Petitioners had failed to sustain the burden of proof imposed upon them in showing that Petitioner Gordon Oil Company sustained an ordinary loss of \$82,518.70 on the aforesaid sale is clearly erroneous and not supported by the evidence.

(c). The Tax Court of the United States erred in deciding a deficiency in income and excess profits tax due from Petitioner Gordon Oil Company in the amount of \$46,256.88, and, by reason of such decision, in deciding a deficiency in income and excess profits tax in the same amount against Petitioner Mortimer A. Kline as transferee of Petitioner Gordon Oil Company.

2. The agreed designation of record as filed in the above-entitled cases with the Tax Court of the United States and as ordered by this Court to be a single consolidated transcript of record on review is the record material to the points upon which Petitioners rely.

/s/ J. W. BULLION,

Attorney for Petitioners.

Affidavit of mail attached.

[Endorsed]: Filed August 20, 1958.

In the United States Court of Appeals
for the Ninth Circuit

MORTIMER A. KLINE, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

GORDON OIL COMPANY, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

On Petition for Review of the Decisions of the
Tax Court of the United States

BRIEF FOR THE RESPONDENT

CHARLES K. RICE,
Assistant Attorney General.

LEE A. JACKSON,
HARRY BAUM,
DAVIS W. MORTON, JR.,
Attorneys,
Department of Justice,
Washington 25, D. C.

FILED

MAR - 3 1959

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**In the United States Court of Appeals
for the Ninth Circuit**

No. 16,150

MORTIMER A. KLINE, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

GORDON OIL COMPANY, PETITIONER

v.

COMMISSIONER OF INTERNAL REVENUE, RESPONDENT

**On Petition for Review of the Decisions of the
Tax Court of the United States**

BRIEF FOR THE RESPONDENT

OPINION BELOW

The findings of fact and opinion of the Tax Court
(R. 38-59) are reported in 29 T.C. 1110.

JURISDICTION

This case involves Mortimer A. Kline's individual income tax liability for calendar year, 1951 (R. 24), as transferee of Gordon Oil Company for deficiencies in income and excess profits taxes in the amount of \$46,256.88 for the corporation's taxable period January 1, 1951, to August 31, 1951 (R. 60, 61). Notice of the deficiency (R. 12-13) was mailed to Gordon Oil Company on January 18, 1955 (R. 6). On April 8, 1955, within the permitted ninety-day period provided in Section 272 of the Internal Revenue Code of 1939, both petitioners (R. 3, 4) filed petitions for review with the Tax Court for a redetermination of the deficiencies (R. 6-8, 9-11). The decisions of the Tax Court, sustaining the corporate income and excess profits tax liability for the taxable period and Mortimer A. Kline's individual tax liability, as transferee, were entered on March 19, 1958. (R. 60, 61.) Petitions for review by this Court were timely filed on June 9, 1958. (R. 62-68, 68-73.) Pursuant to joint motion filed with this Court (R. 76-77), the two cases were consolidated for briefing, hearing, argument and decision (R. 77-78). Jurisdiction is conferred on this Court by Section 7482 of the Internal Revenue Code of 1954.

QUESTION PRESENTED

Whether the Tax Court erred in holding that Gordon Oil Company¹ failed to sustain the burden of

¹ The deficiency determined against Gordon Oil Company was also asserted against petitioner Mortimer A. Kline as

proving a claimed loss on the transfer of oil and gas leases and related equipment, in consideration for cash and a reserved oil payment.

STATUTE INVOLVED

Internal Revenue Code of 1939:

SEC. 22. GROSS INCOME.

* * * *

(f) *Determination of Gain or Loss.*—In the case of a sale or other disposition of property, the gain or loss shall be computed as provided in section 111.

* * * *

(26 U.S.C. 1952 ed., Sec. 22.)

SEC. 111. DETERMINATION OF AMOUNT OF, AND RECOGNITION OF, GAIN OR LOSS.

(a) *Computation of Gain or Loss.* The gain from the sale or other disposition of property shall be the excess of the amount realized therefrom over the adjusted basis provided in section 113(b) for determining gain, and the loss shall be the excess of the adjusted basis provided in such section for determining loss over the amount realized.

(b) *Amount Realized.*— The amount realized from the sale or other disposition of property shall be the sum of any money received plus the

transferee of the assets of that corporation. Since Kline does not contest his liability as transferee if the corporation is liable for the deficiency (R. 59), for convenience the petitioners are sometimes referred to as "taxpayers".

fair market value of the property (other than money) received.

* * * *

(26 U.S.C. 1952 ed., Sec. 111.)

STATEMENT

The pertinent facts, as stipulated (R. 24-27) and as found by the Tax Court below (R. 38-56), appear as follows:

Mortimer A. Kline is an individual residing in Los Angeles, California. He filed his income tax return for the taxable year ended December 31, 1951, with the Collector of Internal Revenue at Los Angeles, California. (R. 39.)

Gordon Oil Company was incorporated under the laws of the State of California on January 20, 1949. It was incorporated for the purpose of acquiring, exploring, developing and producing oil and gas properties, and throughout the period of its existence conducted that business. Gordon filed its income and excess profits tax returns for the taxable period January 1, 1951, to August 31, 1951, with the Collector of Internal Revenue at Los Angeles, California. (R. 40.)

Gordon, on March 22, 1949, acquired two undeveloped oil and gas leases in Placerita Field, Los Angeles County, California. Gordon drilled and equipped twenty-nine producing wells on the leaseholds. (R. 40.)

During the period from March to May, 1951, Kline purchased all of Gordon's outstanding stock for a total consideration of \$3,962,432.54. Kline purchased

the stock for his own account. The purchases were financed by a loan from a bank in Dallas, Texas. All of the stock in Gordon purchased by Kline was pledged as collateral for the loan. (R. 40.)

After Kline had acquired control of Gordon, Gordon, as a principal, by proper and appropriate corporate action, executed under date of May 7, 1951, an agreement with Tevis F. Morrow and A. H. Meadows. Upon the execution of this agreement there was paid to Gordon \$250,000 in cash. (R. 40-41.) The agreement provided for payment by the assignees Morrow and Meadows, in addition to the \$250,000 cash down payment, of a reserved oil payment to Gordon Company in the amount of \$3,600,000, and for various other covenants to be performed by Morrow and Meadows. The relevant provisions of the agreement are set out in the Tax Court's opinion at pages 41 to 54 of the record.

The excepted interest reserved by Gordon in the agreement with Morrow and Meadows would be liquidated in full substantially prior to the exhaustion of the economic life of the leases and was not tantamount to an overriding royalty. (R. 54.)

At the time of the agreement with Morrow and Meadows, Gordon had fully depleted its leasehold cost in both of the leases, but had on hand tangible assets pertaining to the operation of the leases, with a then adjusted basis of \$332,518.70. These assets, their respective costs to Gordon, adjustments due to depreciation, and their adjusted basis were as follows, as of the date of the agreement (R. 54-55):

Physical equipment in wells	\$159,748.52
Buildings	8,147.12
Machinery and equipment	5,414.27
Pipelines	18,909.76
Pumping equipment	94,745.87
Reservoirs and tanks	25,725.35
Autos and trucks	7,200.05
	<hr/>
Total	\$319,890.94
Less reserve for depreciation	37,429.80
	<hr/>
Adjusted basis of fixed assets	\$282,461.14
Crude oil inventories—	
at book amount	13,215.15
Materials and supplies—	
at book amount	34,204.04
Electrical service deposits	2,638.37
	<hr/>
Total Adjusted Basis of Properties Sold	\$332,518.70

Kline, on behalf of Gordon, negotiated the sale of the working interest in the leasehold estates and the sale of all of its other properties except cash and accounts receivable with Morrow and Meadows. Morrow and Meadows never had any connection with Gordon ~~was~~ an officer, stockholder, director or otherwise. (R. 55.)

Following the execution of the agreement with Morrow and Meadows, Gordon was dissolved and all of its assets and property then on hand, including the excepted interest, were distributed in complete liquidation of the company to Kline in cancellation and redemption of all of the outstanding stock of the company. (R. 55.)

After Gordon was dissolved and liquidated, Kline, as a principal, sold the excepted interest which he had received in liquidation of Gordon for \$3,600.000, to a purchaser with whom he never had any prior connection. Following the liquidation of Gordon and the sale of the excepted interest, Kline paid off the indebtedness he had incurred with the Dallas bank in connection with his purchase of all of the outstanding capital stock of Gordon. (R. 55-56.)

Kline was the transferee of the assets of Gordon upon its complete liquidation in August, 1951. (R. 56.)

Gordon as a result of the transaction with Morrow and Meadows claimed a loss deduction of \$82,518.70. The Commissioner disallowed the deduction, and the Tax Court sustained the disallowance. (R. 56-59.)

SUMMARY OF ARGUMENT

The Tax Court correctly held that the taxpayers had failed to meet the burden of proving the claimed loss. The taxpayers claim a deductible loss on the theory that the equipment and other tangible property used in connection with the leaseholds was sold by Gordon Oil Company separately from the leaseholds, and, moreover, was sold solely for the cash down payment of \$250,000. However, the record shows, and the Tax Court found, that the tangible property was transferred in conjunction with the leaseholds as part of a package deal, and in a single instrument of transfer, and that the cash down payment was but a part of the total consideration receivable, the taxpayers having reserved a substantial oil

payment and various covenants as additional consideration. Nothing in the instrument of transfer indicates that the cash down payment was the sole consideration for the tangible property, i.e., that no part of the additional consideration was allocable to the tangible property. Indeed, as the Tax Court also found, there is no convincing evidence that the tangible assets which the taxpayers claim they sold for only \$250,000 were worth less than their adjusted basis (\$332,518) at the time of the sale. Since the taxpayers failed to carry the burden of proving that the tangible property was sold for only the cash down payment, the Tax Court properly disallowed the claimed loss deduction.

ARGUMENT

The Tax Court Correctly Held That the Taxpayers Failed To Sustain the Burden of Proving the Claimed Loss

The taxpayers are entitled to a loss deduction on the sale of the leasehold equipment (tangible assets) only if the consideration received on the sale was less than the adjusted basis of the property sold. Sections 22(f) and 111(a) and (b) of the Internal Revenue Code of 1939, *supra*. The burden of proving the right to, and the amount of, the claimed deduction rested of course upon the taxpayers. *Burnet v. Houston*, 283 U.S. 223, 227; *New Colonial Co. v. Helvering*, 292 U.S. 435, 440; *Deputy v. du Pont*, 308 U.S. 488, 493. This burden, as the Tax Court held upon analysis of the entire record, clearly has not been met. As the Tax Court pointed out in its opinion, the taxpayers'

entire argument proceeds on the unwarranted premise that the tangible property sold in conjunction with the leaseholds was sold separately from the leaseholds, and, moreover, was sold solely for the cash down payment of \$250,000. However, as the record shows and the Tax Court found (R. 56-57), the cash payment "was part of an *integrated transaction* involving an assignment of the working interests in two producing oil and gas leases *along with all related assets* except cash and accounts receivable", and "Nowhere in the instrument of assignment is there any language indicating either explicitly or by implication that the \$250,000 cash payment was the *sole consideration* for the tangible property." [Italics ours.] In the words of the Tax Court (R. 56, 58-59) :

But the difficulty with petitioners' position is that the record fails to support their assumption that the tangible property was sold for \$250,000, and there is no convincing evidence that the consideration passing to the seller in respect of the tangible property was less than its adjusted basis.

* * * *

And if there was a cash payment, as in the present case, there must be some satisfying proof that it represented the sole consideration for the tangible assets before the assignor can succeed in its claim that it suffered a deductible loss, measured by the excess of the adjusted basis over the cash payment. Otherwise, merely by juggling the cash payment and the so-called retained interest, it would be able to obtain a deduction on account of a loss that it in fact did not sustain. * * *

Petitioners merely assert, without proof, that the consideration consisted solely of the \$250,000 cash payment. The burden of proof, however, was upon them, and they have completely failed to carry it. There is no convincing evidence that the tangible assets were worth less than their adjusted basis at the time of sale, or that the seller negotiated a deal whereby the total consideration receivable in respect of such assets was less than their adjusted basis. One who claims a deduction on account of loss must establish his right to it.

Viewed in a light most favorable to the taxpayers, all that the record shows is that: (a) Kline purchased Gordon Oil Company's stock for \$3,962,432.54 (R. 25); (b) Gordon Oil Company then assigned its entire interest in its producing oil properties (including tangible properties but excluding accounts receivable and moneys on hand or on deposit) to Meadows and Morrow in return for an oil payment of \$3,600,000, payable out of 85 per cent of production and for cash of \$250,000 (R. 25-26, 41-54); (c) the adjusted basis of the assigned tangible property was \$332,518.70 (R. 26); (d) after dissolution of Gordon Oil Company and distribution of its assets to himself, Kline sold the oil payment to a purchaser at par (R. 35, 55-56); Gordon Oil Company, on the Meadows and Morrow assignment, intended to dispose of all its interest in the physical equipment (R. 35); the \$250,000 cash payment was a product of negotiation "and in my [Kline's] judgment that represented the fair market value of the equity, subject to the oil payment" (R. 35); and (e) Gordon Oil Company ac-

quired the leases in an undeveloped state and equipped twenty-nine wells (R. 37), placing the equipment on the properties prior to Kline's acquisition of the stock (R. 36). Kline acknowledged (R. 34-35) that the instrument of assignment (R. 25-26, 41-54) was the best evidence of the interest conveyed to Morrow and Meadows; significantly, the granting clause of that instrument recited (R. 41):

For a valuable consideration, cash in hand paid * * * and in consideration of the strict and punctual performance by Assignee * * * of the covenants herein provided to be kept and performed by Assignee * * * and, subject to the exception and reservation hereinafter stated,²

² This "exception and reservation" consisted of the \$3,-600,000 oil payment payable out of 85 per cent of production, plus reimbursement of any taxes paid by Assignor, and plus 5 per cent per annum interest from May 1, 1951, on the unliquidated balance. (R. 42-44.) In addition, the agreement provided (R. 45):

(7) The above reservation and exception shall in no sense extend to any lease equipment or other personal property which is included in this sale, all of which equipment and personal property is being sold to Assignee without reservation.

See also paragraphs 8 and 10 of the assignment (R. 45-50) setting out the assignee's covenants to develop and operate the properties in a good and workmanlike manner and to produce oil and gas as long as possible in paying quantities; pay over the assignor's share; pay taxes, costs and expenses; comply with all leases and regulations; and granting to the assignor visitorial privileges and rights to inspection. As the Tax Court observed (R. 57), "These covenants were plainly of considerable value to the assignor."

Assignor does hereby * * * assign * * * all interests in lands wherever situated and all * * * rights of every character which are useful or appropriate in exploring for, developing, operating, treating, storing, or transporting oil, gas or other minerals * * * together with all improvements and all the interests of Assignor in all personal property situated upon or used in connection with mining operations on said lands, and all other tangible personal property or interests therein now owned by Assignor, and all other properties and interests in properties of whatsoever kind or character, except accounts receivable and moneys on hand or on deposit; now owned by Assignor.

According full significance to each and all of the above outlined facts, it becomes clear, as the Tax Court concluded (R. 56, 58-59), that the taxpayers have failed completely to sustain the burden of proving the claimed \$82,518.70 loss deduction on the sale of the tangible property. The fact that the tangible property had an adjusted basis of \$332,518.70 has no significance for purposes of establishing the claimed \$82,518.70 loss unless proof were adduced that the \$250,000 received in cash was the sole consideration paid specifically for such property. However, as the Tax Court pointed out (R. 57-58):

Nowhere in the instrument of assignment is there any language indicating either explicitly or by implication that the \$250,000 cash payment was the sole consideration for the tangible property. A reading of the instrument as a whole persuasively suggests that it represented a "package deal", and we have no way of know-

ing on the record before us whether a proper allocation of the total consideration running to the assignor in respect of the tangible property includes something more than the \$250,000 cash payment.

Obviously, the parties could easily have varied the amount of the immediate cash payment with appropriate accompanying changes in the consideration relating to the so-called reserved payment. Or, they might even have eliminated the immediate cash payment entirely while at the same time providing for increased consideration in respect of the other covenants. Could it fairly be said in such circumstances that the tangible property was being sold for nothing? The answer is plainly no. The transaction was a matter of negotiation between the parties, and it was entirely up to them as to whether there would be any immediate cash payment or the amount thereof.

Moreover, a mere cursory reading of the entire instrument of assignment, and, particularly, the granting clause, *supra*, reveals the absence of any allocation of the consideration (cash down payment plus reserved oil payment) as between the leaseholds and the tangible property. In the absence of evidence that a portion of the reserved oil payment and related covenants was not properly allocable to the tangible property, the taxpayers failed to carry the burden of proving that the tangible property was sold for only the cash down payment, and the Tax Court's decision must be sustained.

Contrary to the taxpayers' contention (Br. 20, 30), the provision in the assignment agreement that the

reserved oil payment was to be made only out of oil production and not out of the proceeds of the sale of the tangible property (R. 45), does not require a finding that no part of the additional consideration represented by the oil payment right and other covenants of the assignees was attributable to the tangible property. The reservation of oil payments out of oil production was obviously a precautionary clause designed to preserve the Gordon Company's economic interest in the oil to be produced, for depletion deduction purposes, to the full extent of the \$3,600,000 oil payment. See Sections 23(m) and 114(b) (3) of the Internal Revenue Code of 1939 (26 U.S.C. 1952 ed., Secs. 23 and 114); *Anderson v. Helvering*, 310 U.S. 404. But it hardly follows that no part of the consideration represented by the oil payment was allocable to the leasehold equipment and other tangible property transferred in conjunction with the leasehold. To subscribe to the taxpayers view would, as the Tax Court observed (R. 58), permit the assignor "merely by juggling the cash payment and the so-called retained interest * * * to obtain a deduction on account of a loss that it in fact did not sustain." See also G.C.M. 23623, 1943 Cum. Bull. 313; Rev. Rul. 55-35, 1955-1 Cum. Bull. 286.

The basic fallacy in the taxpayers' argument, as was true of their contention before the Tax Court, is "their assumption that the tangible property was sold for \$250,000". (R. 56.) This assumption, in turn, rests upon the fallacious contention (Br. 20, 21, 22-23, 29, 31) that the \$250,000 cash payment was the *only* consideration moving to Gordon Oil Company

from the assignees, a contention contrary not only to the express statement of the consideration set forth in the granting clause (R. 41), but to the terms of the agreement read as a whole. Nor is there any merit in taxpayers' attempt to disparage the value attaching to the additional covenants (R. 57) by characterizing such additional consideration as (Br. 29) "attributes of the production payment received by Gordon." The obvious, albeit not precisely calculable, dollar value of the covenants is readily seen when it is recognized that failure to perform subjects the assignees to interest of 5 per cent per annum on the unliquidated balance (par. 4(b), R. 43), which, absent performance at all, would amount to \$180,000 in the first year. Under such circumstances, it is unrealistic for the taxpayers to contend that the \$250,000 cash down payment was the only consideration. The assignees were, realistically, paying \$3,850,000 (and securing a depletable economic interest in the \$3,600,000 oil payment) for Gordon's entire interest (less accounts receivable and cash) in the producing leases.

Moreover, as the Tax Court noted (R. 58-59), "There is no convincing evidence that the tangible assets were worth less than their adjusted basis (\$332,518) at the time of sale, or that the seller negotiated a deal whereby the total consideration receivable in respect of such assets was less than their adjusted basis." It is entirely unrealistic for the taxpayers to contend, as they do, that the equipment was sold separately from the leases for an amount (\$250,000) substantially less than its fair value. Signifi-

cantly, Kline testified (Br. 22) that the \$250,000 down payment represented "the fair market value of the equity (the working interest in the two leases and the tangible property) subject to the oil payment." Apart from the fact that the Tax Court was not obliged to accept any self-serving opinion of value, Kline's testimony appears inconsistent with his present claim that the \$250,000 represented the consideration for the tangible property *alone*, and that consequently he sustained a deductible loss in the amount of the difference between the adjusted cost basis of the tangible property (\$332,518.70) and the amount received for such property (\$250,000), or a loss of \$82,518.70.

Nor is there any merit in taxpayers' reliance (Br. 31-36) on *Choate v. Commissioner*, 324 U.S. 1. As the Tax Court pointed out below (R. 59):

No issue was raised in that case as to whether a loss was actually sustained; that fact was assumed, and the Supreme Court explicitly noted that no question was "presented concerning the allocation of a portion of the purchase price to the equipment," 324 U.S. at p. 4. Cf. Theoretical "Loss" On Equipment Arising From Producing Leasehold Assignment, 4 Oil and Gas Tax Quarterly 1, 9-10. The very heart of the present case is whether a loss was in fact sustained, and on that question petitioners have failed to carry the burden of proof.

Finally, in contending (Br. 20, 29) that the "unrecovered cost" of the tangible property must be allowed as a deductible loss or else allowed through

future depletion deductions, the taxpayers beg the very point at issue by assuming that there was an "unrecovered cost", i.e., that the consideration received for the tangible property was less than its adjusted cost basis. There was an "unrecovered cost" only on the assumption that the \$250,000 down payment was the *sole* consideration for the tangible property, an assumption which the Tax Court properly declined to accept for failure of proof. See also G.C.M. 23623, 1943 Cum. Bull. 313, *supra*; Rev. Rul. 55-35, 1955-1 Cum. Bull. 286, *supra*.

CONCLUSION

The decision of the Tax Court is correct and should be affirmed.

Respectfully submitted,

CHARLES K. RICE,
Assistant Attorney General.

LEE A. JACKSON,
HARRY BAUM,
DAVIS W. MORTON, JR.,
Attorneys,
Department of Justice,
Washington 25, D. C.

March, 1959.

No. 16151 ✓

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

MICHELE MARCHESE and JESSE DEL BONO,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S OPENING BRIEF.

LAUGHLIN E. WATERS,
United States Attorney,

ROBERT JOHN JENSEN,
Assistant United States Attorney,
Chief, Criminal Division,

BRUCE A. BEVAN, JR.,
Assistant United States Attorney,
600 Federal Building,
Los Angeles 12, California,
Attorneys for Appellee United States of America.

FILED

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PAUL P. O'BRIEN, CLERK

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No. 16151

IN THE

United States Court of Appeals
FOR THE NINTH CIRCUIT

MICHELE MARCHESE and JESSE DEL BONO,

Appellants,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEES' OPENING BRIEF.

Statement of Jurisdiction.

On April 16, 1958, the Grand Jury for the Southern District of California returned the instant indictment against appellants [Clk. T. 1-2].¹ Not guilty pleas to the indictment were entered on April 21, 1958, and the case was set for trial on May 6, 1958 [Clk. T. 15].

On May 6, 1958, jury trial began in the United States District Court for the Southern District of California, Central Division, and was concluded on May 14, 1958 by verdicts of guilty on all counts against appellant Marchese and by verdicts of guilty on Counts 1, 8, 9, and 10 against appellant Del Bono, and by verdicts of not guilty on Counts 2, 3, 4, 5, 6, and 7 [Clk. T. 35, 36].

¹Clk. T. refers to the Clerk's Transcript of Record.

On June 16, 1958, both appellants were sentenced to be committed to the custody of the Attorney General for a period of ten years on each of the counts upon which they had been convicted, the sentences to run concurrently [Clk. T. 47-48].

Timely notices of appeal were filed by each of the appellants [Clk. T. 51, 53].²

Statement of the Case.

One Donald Sussman, a narcotic user and seller [R. T. 96, 419-422]³ had been selling heroin on consignment for appellant Michele Marchese for four and one-half years prior to the instant trial [R. T. 417, 473-474, 489-490]. On January 29, 1958, he was arrested by federal officers on charges of selling narcotics [R. T. 434]. After conversing with the officers, he was released on his own recognizance [R. T. 18-95], in order that he might contact his principal, Marchese.

The next day, January 30, 1958, the officers placed a radio transmitter⁴ on Sussman's persons and he then went to and entered apartment No. 5, 11032 Moorpark, North Hollywood, California [R. T. 19-20, 126-127, 224, 246, 365]. Outside the apartment, the officers observed a white Chrysler Imperial automobile, license number MLH

²Although we have not been informed of a consolidation of the appeals, we presume that the Court has no objection to our filing a consolidated brief, since such was done by the appellants.

³R. T. refers to the Reporter's Transcript of Proceedings.

⁴Throughout the trial and even here on appeal, appellants have attempted to capitalize on certain terminology used by Sussman in describing the radio. At R. T. 425, Sussman described the radio as having "recorded" the conversation. However, the evidence rather clearly demonstrated that no "recording" was obtained, but only that the agents listened upon the set, took notes in longhand and shorthand, and later transcribed them [R. T. 69, 496, 529-530, 532].

304 [R. T. 33, 128, 246-247], the use of which had been given to appellant Marchese by his father, the registered owner of the vehicle [R. T. 122-125]. Inside the apartment, Sussman conversed with appellant Marchese, saying that he had a customer who wanted a \$1,000 worth of narcotics, and Marchese agreed to have the appropriate amount of narcotics put in the usual place at a service station at Third and Normandy Streets in Los Angeles [R. T. 31-32, 366-368, 371, 499, 506-508].

Officers then searched the rest room of the Mobile Service Station at that location, and did so after each user thereof left [R. T. 129, 232-234].

Appellant Del Bono was seen to enter the restroom at 1:40 P.M. on January 30, 1958. A search of the premises after he left revealed Exhibit 3A [R. T. 537], a package of heroin, concealed under the wash basin [R. T. 135, 235, 120-121].

Appellant Del Bono later was observed driving to the C & M garage, in which appellant Marchese's father has a one-half interest [R. T. 122].

At 6:40 P.M., Sussman phoned Marchese and was told by Marchese to bring the money to the Moorpark apartment the next day [R. T. 41-42, 374-375].

The next day, January 31, 1958, Sussman was given \$1,000 by the officers, had the radio again placed on his person, and proceeded to and entered the Moorpark apartment outside of which the appellant's Imperial again was parked [R. T. 43-45, 138, 381-383, 508-511]. There Sussman gave Marchese the \$1,000, \$110 of which Marchese returned to him (*ibid.*).

On February 7, 1958, Sussman again had a radio concealed on his person, and met Marchese at the apartment

[R. T. 48-50, 138-139, 335, 383-387, 511-513]. They conversed relative to another \$1,000 purchase and a possible \$15,000 purchase. Marchese stated the narcotics for the former purchase would be dropped at a service station at Los Feliz and Brand Avenues in Los Angeles (*ibid.*). Thereafter, the officers proceeded to the Standard service station at that corner and searched the rest room [R. T. 163-164, 195-196, 237, 251]. No narcotics were discovered until after appellant Del Bono had been seen to enter and then leave the restrooms; a search then disclosed a concealed package of heroin, Exhibit 4A [*ibid.*; R. T. 38]. Sussman returned to the apartment that evening and gave Marchese the \$1,000 officers had furnished, and Marchese returned \$20 to him [R. T. 53, 253-254, 389]. They also discussed the possibility of a \$11,500 purchase by the "customers" of Sussman (*ibid.*).

On March 12, 1958, at approximately 1:30 P.M., Sussman went to the Moorpark apartment again [R. T. 57, 254]. At 4:15 P.M. on the same day, a man who had come from the International Airport entered Del Bono's house carrying a bag [R. T. 338, 350], and was observed by Narcotic Agent Daley, who had been told that a shipment of narcotics was to come in from New York [R. T. 344]. At about 8:08 P.M., Del Bono entered the Moorpark apartment where appellant Marchese's Imperial was located [R. T. 339, 353-354]. At about 9:00 P.M., Sussman entered the apartment [R. T. 58, 254].

The next day, March 13, 1958, at approximately 9:00 A.M., Sussman entered the Moorpark apartment, conversed with Marchese relative to the sale of \$11,500 of heroin [R. T. 59, 390]. Sussman and Marchese met later, at approximately 12:00 P.M., at the corner of Vineland and Ventura Boulevards, where Marchese told him the

narcotics later would be found in the trunk of a 1941 Dodge at that corner [R. T. 69, 140, 143, 200, 255, 318-319, 355-356, 393]. Marchese then made a phone call at 12:00 or 12:05 (*ibid.*). At 12:15 P.M., Del Bono left his house carrying a brown paper bag which he placed in the trunk of a 1941 Dodge, which he drove to Vineland and Ventura, where he parked the vehicle and entered a 1957 Buick which Marchese was driving [R. T. 61, 77, 168-171, 177-179, 256, 307]. Sussman obtained Exhibit 5A, a package containing two pounds, 246 grains of heroin, from the trunk of the Dodge [R. T. 61, 78, 121, 396, 538]. Del Bono was arrested near the Moorpark apartment while waiting for a cab, and Marchese was arrested in the apartment [R. T. 201-202, 322].

We disagree with the statement in Appellant's Brief at page 17, wherein it is alleged that the evidence of Del Bono's visit to the gasoline station on January 30, 1958 was admitted against Del Bono alone. At R. T. 539-540, this piece of evidence was admitted against both defendants.

I.

Radio Transmission of Messages Is Not in Violation of 47 U. S. Code Sec. 605.

Appellants complain that a radio transmitter, placed upon the person of Donald Sussman, relayed conversations between Sussman and Marchese to officers, who heard and testified concerning the conversations. This is argued to be in violation of 47 United States Code 605.

Since the case of *On Lee v. United States*, 343 U. S. 747, 753-754 (1952), it has been the law that such use of radio transmitters is proper and not in violation of any statute or of the Constitution. In that case an informant

similarly had been "wired for sound," the officer overheard the conversations between the informant and the defendant and related them to the jury. In holding his testimony was properly admitted, the Supreme Court reasoned:

"Petitioner urges that if his claim of unlawful search and seizure cannot be sustained on authority, we reconsider the question of Fourth Amendment rights in the field of overheard or intercepted conversations. This apparently is upon the theory that since there was a radio set involved, he could succeed if he could persuade the Court to overturn the leading case holding wiretapping to be outside the ban of the Fourth Amendment, *Olmstead v. United States*, 277 U. S. 438, and the cases which have followed it. We need not consider this, however, for success in this attempt, which failed in *Goldman v. United States*, 316 U. S. 129, would be of no aid to petitioner unless he can show that his situation should be treated as wiretapping. The presence of a radio set is not sufficient to suggest more than the most attenuated analogy to wiretapping. Petitioner was talking confidentially and indiscreetly with one he trusted, and he was overheard. This was due to aid from a transmitter and receiver, to be sure, but with the same effect on his privacy as if agent Lee had been eavesdropping outside an open window. The use of bifocals, field glasses or the telescope to magnify the object of a witness' vision is not a forbidden search or seizure, even if they focus without his knowledge or consent upon what one supposes to be private indiscretions. It would be a dubious service to the genuine liberties protected by the Fourth Amendment to make them bedfellows with spurious liberties improvised by farfetched analogies which would liken eavesdropping on a conversation, with the connivance

of one of the parties, to an unreasonable search or seizure. We find no violation of the Fourth Amendment here.

“Nor do the facts show a violation of §605 of the Federal Communications Act. Petitioner had no wires and no wireless. There was no interference with any communications facility which he possessed or was entitled to use. He was not sent messages to anybody or using a system of communications within the Act. *Goldstein v. United States*, 316 U. S. 114.”

In subsequent cases, Courts of Appeal have followed the *On Lee* decision and have admitted evidence acquired through the use of concealed radio transmitters. *United States v. Sansone*, 231 F. 2d 887 (C. A. 2, 1956); *Lott v. United States*, 230 F. 2d 915 (C. A. 5, 1956).

At pages 20 and 21 of their brief, appellants also apparently complain of the reception into evidence of the officer's testimony relating to telephone conversations between Marchese and Sussman which were overheard by the officers. The use of such evidence has been held by the Supreme Court as not being in violation of law. In *Rathbun v. United States*, 355 U. S. 107, 110-111 (1957), evidence obtained by listening upon an extension phone was held proper, and in passing upon the question, it was stated:

“The conduct of the party would differ in no way if instead of repeating the message he held out his handset so that another could hear out of it. We see no distinction between that sort of action and permitting an outsider to use an extension telephone for the same purpose.”

Accord: *United States v. Bookie*, 229 F. 2d 130 (C. A. 7, 1956).

As to the cases cited by appellants, it is hard to see the applicability in any respect of *Reichert v. Commissioner of Internal Revenue*, 214 F. 2d 19. Moreover, *United States v. Hill*, 149 Fed. Supp. 83, was overruled by the Supreme Court in the above-cited *Rathbun* case. In the main, the rest of the cases deal with intercepted phone wires, and thus the facts therein are inapposite to those in the instant case. Therefore, appellants' cited cases lend them no support, and the *Rathbun* and *On Lee* Supreme Court and other cases specifically dealing with identical facts should control the issue.

II.

The Evidence Is Sufficient to Support the Verdicts.

Appellants also question the sufficiency of the evidence. Since the evidence must be construed in the light most favorable to the appellee at this stage of the prosecution, we trust that the evidence outlined in our Statement of the Facts is more than ample to sustain each count upon which judgment was entered, and that we need not laboriously repeat or amplify that statement of the evidence. It is also here pertinent to point out that the appellants each were given concurrent sentences of ten years upon each of the counts upon which they were found guilty. Thus if the conviction upon any one of the counts is valid, the judgment must be affirmed.

Winger v. United States, 233 F. 2d 440 (C. A. 9, 1956) and cases cited.

Appellants make various attacks upon the evidence as it pertained to the counts of the indictments. For the lack of a better approach to the problem, appellee will attempt to answer the problem by the piece-meal method of responding to each attack.

At pages 23-24 of their brief, appellants attack the conspiracy count, Count One, charging:

“There is absolutely no evidence to support the charge of conspiracy or agreement between Michele Marchese and Jesse Del Bono to sell and facilitate the sale of narcotics.”

True, there is no *direct* evidence of a conspiracy. However, on three occasions, Marchese tells Sussman that for a designated sum of money, a designated amount of narcotics will be delivered at a designated place. The designated amount of narcotics was so delivered by the co-defendant Del Bono. It takes little guesswork to come to the conclusion that there was an agreement between the two with respect to the sale and delivery of this merchandise. All doubt would seem to be removed when it is considered that Marchese picked up Del Bono in the automobile of the former immediately after the latter had made delivery of over two *pounds* of heroin.

At page 24 of their brief, appellants charge:

“There is no evidence whatsoever that Marchese actually received the \$1,000.00.”

The evidence as to Marchese's receipt of the \$1,000 for the first transaction is direct and unequivocal. Sussman testified he handed it to Marchese on January 31, 1958 [R. T. 383]. In addition, two agents testified they overheard, via the radio set, Marchese counting this money [R. T. 44-45, 509].

At former page 25 of their brief, appellants claim:

“One person does not make a conspiracy. Since Del Bono was acquitted of Count One, it follows that Count One of the indictment charged conspiracy between Marchese and Del Bono must necessarily be reversed.”

The simple truth of the matter is that Del Bono was convicted of Count One, the conspiracy count [Clk. T. 35; R. T. 754], and we are informed by counsel for appellants that a correction of this will or has been made.

At pages 25-26 of their brief, appellants state:

“Each of the verdicts as to Counts 2, 3, 4, 5, and 6 by the jury found Del Bono not guilty. Since, however, the alleged delivery on which the government relies and proof of the receipt of narcotic drugs by Sussman requires necessarily proof that Marchese transported the drugs to a place where Sussman claimed to have agreed to have it picked up, the findings of the jury as to each of those counts necessarily finds that Marchese did not have the drugs which Sussman claims to have placed in the various spots where Sussman was supposed to pick them up.”

This *non sequitur* scarcely needs refuting. Suffice it to say that we need not have proved that *Marchese* transported the drugs to the designated place, but only that someone did. That someone did do so is clear from the testimony of the agents and officers who found the narcotics.

In this connection, we would like to make clear, though appellants have not, that Marchese was convicted of having been an accessory before the fact to the commission of the offenses named in Counts Four and Seven, and that Del Bono was acquitted of those charges, having been named as the principal therein. This finding of the jury is not inconsistent, and Marchese's conviction upon these counts must stand, so long as there is evidence that *someone* committed the substantive acts of receiving, concealing

or facilitating the concealment or transportation of the heroin charged in those counts.

Meredith v. United States, 238 F. 2d 535 (C. A. 4, 1956);

Colosacco v. United States, 196 F. 2d 165 (C. A. 10, 1952);

Von Patzold v. United States, 163 F. 2d 216 (C. A. 10, 1947);

Rooney v. United States, 203 Fed. 928 (C. A. 9, 1913).

That *someone* transported and concealed the instant heroin in the service stations is clear enough. Thus, Marchese was properly convicted upon such counts as the evidence clearly shows his causing such transportation and concealment to have occurred. In any event, the sentences imposed upon these counts was concurrent with the other eight from which Marchese appeals.

At page 27 of their brief, appellants say that Del Bono never was observed to be going to No. 5, 11032 Moorpark, North Hollywood, California. The officers testified Del Bono was observed to have gone into said apartment on the night of March 12, 1958, the night before the two pound delivery was made, and that Marchese's Imperial was there and that Sussman later arrived [R. T. 58, 254, 339, 353-354].

In like vein, it is argued:

"Del Bono . . . was not observed to participate in any way in any narcotic transaction . . ." (Br. p. 27.)

"There is no evidence that Jesse Del Bono transported the narcotics in question. . . ." (*Ibid.*)

“There is no evidence that either defendant ever received, incurred or had in his possession at any time, or themselves transported the narcotics in question. The case must rest therefore on pure speculation and conjecture.” (*Id.*)

Appellee sees no point in replying to such arguments and does not, as they either have been made in ignorance of or without regard to the evidence.

The major point of appellants is that the case is founded upon the testimony of the informant Sussman and that, as such, he is unreliable. This argument was made to the jury and rejected by it, thus foreclosing the issue. As stated by the Supreme Court in *Glasser v. United States*, 315 U. S. 60 and by this Court in *Blassingame v. United States*, 254 F. 2d 309 (C. A. 9, 1958),

“It is not for us to weigh the evidence or to determine the credibility of the witnesses. The verdict of a jury must be sustained if there is substantial evidence, taking the view most favorable to the Government, to support it.”

It is also alleged by appellants, that the law requires corroboration of an accomplice and that the testimony of an accomplice alone is not sufficient to establish the guilt of the accused. Of course, Sussman was not and could not have been an accomplice since he could not have been convicted of any of the crimes upon which appellants were indicted, as he lacked the necessary *mens rea*, being a government informant. *Stevenson v. United States*, 211 F. 2d 702 (C. A. 9, 1954); *Risinger v. United States*, 236 F. 2d 96, 99 (C. A. 5, 1956). For this reason, even the rule appellants espouse would not apply.

Appellants quote extensively and apparently rely heavily upon *Sykes v. United States*, 204 Fed. 909 (Br. pp. 28-30), on the point of corroboration of an accomplice being

necessary. This Court expressly dealt with that decision earlier in *Hass v. United States*, 31 F. 2d 13 (C. A. 9, 1929). This Court then said:

“That a conviction may rest upon the uncorroborated evidence alone of an accomplice is now well settled. *Caminetti v. United States*, 242 U. S. 470 . . . The appellant cites *Sykes v. United States* . . . The decision in that case was rendered prior to the ruling in the *Caminetti Case* . . .”

See also:

Doherty v. United States, 230 F. 2d 605 (C. A. 9, 1956);

Pina v. United States, 165 F. 2d 890 (C. A. 9, 1948).

In any event, Sussman was as corroborated an accomplice as one could imagine. His every step was observed by numerous agents and even the majority of his conversations were overheard. The agents testified to the recognition of Marchese's voice, and the incriminatory nature of his statements to Sussman should supply all the corroboration needed, no matter how severe the standard.

III.

Conclusion.

There being no error in the judgments below, they should be affirmed.

Respectfully submitted,

LAUGHLIN E. WATERS,
United States Attorney,

ROBERT JOHN JENSEN,
Assistant U. S. Attorney,
Chief, Criminal Division,

BRUCE A. BEVAN, JR.,
Assistant U. S. Attorney,

Attorneys for Appellee United States of America

No. 16154 ✓

United States
Court of Appeals

for the Ninth Circuit

THE COLEMAN COMPANY, INC., a Corpora-
tion, Appellant,

vs.

THE SIEGLER CORPORATION, a Corporation,
Appellee.

Transcript of Record

In Two Volumes

VOLUME I.

(Pages 1 to 312, inclusive)

Appeal from the United States District Court for the
Southern District of California,
Central Division

FILED

FEB - 6 1958

PAUL P. O'DMIEN, CLERK

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NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

PARKER, STANBURY, REESE & McGEE,
DAWSON, TILTON, FALLON & LANGMUS,
RAYMOND G. STANBURY,

315 West 9th Street,
Los Angeles 15, California.

For Appellee:

CHRISTIE, PARKER & HALE,
JAMES B. CHRISTIE,
C. RUSSELL HALE,
RICHARD B. HOEGH,
ASHLEY STEWART ORR,

595 East Colorado Street,
Pasadena 1, California. [1]*

*Page numbers appearing at bottom of page of Original Transcript of Proceedings.

In the United States District Court, Southern
District of California, Central Division

No. 213-57 BH

THE SIEGLER CORPORATION, a Corporation,
Plaintiff,

vs.

THE COLEMAN COMPANY, a Corporation,
Defendant.

COMPLAINT FOR DECLARATORY
JUDGMENT

Comes now the Plaintiff and for cause of action
against the Defendant, alleges as follows:

1. The Plaintiff, The Siegler Corporation, is a corporation organized and existing under the laws of the State of Delaware and has a regular and established place of business at 875 S. Arroyo Parkway, City of Pasadena, County of Los Angeles and State of California.

2. The Defendant, The Coleman Company, is a corporation organized and existing under the laws of the State of Kansas and has a regular and established place of business at 6480 Flotilla Street, City of Los Angeles, County of Los Angeles and State of California.

3. The Plaintiff's cause of action against the Defendant arises under the patent laws of the United States. This court has jurisdiction of the

subject matter of Plaintiff's cause of [2] action under the provisions of 28 U.S.C. sec. 1338 relating to patent causes and the provisions of 28 U.S.C. sec. 2201 relating to declaratory judgments.

4. On or about December 31, 1956, the Defendant, by a letter addressed to the Holly Manufacturing Company, Inc., 875 S. Arroyo Parkway, Pasadena, California, gave notice to Holly Manufacturing Company of alleged infringement of United States Patent No. 2,767,702 entitled "Wall Heater and Economizer Structure" issued on October 23, 1956, to The Coleman Company. At all times since on or about November 29, 1955, Holly Manufacturing Company has been and now is a division of the Plaintiff and is known as "Holly Manufacturing Company, a Division of The Siegler Corporation."

5. The Defendant's charge of infringement of said patent by the Plaintiff relates to wall heaters being manufactured and sold by the Plaintiff in the County of Los Angeles, State of California.

6. The Plaintiff does not infringe said Patent No. 2,767,702, and so advised the Defendant by a letter dated February 6, 1957.

7. The Plaintiff is informed and believes and therefore alleges that said patent and each claim thereof is invalid for the following reasons:

(a) Harry Giwosky, named in said patent as the inventor, was not the first inventor of the purported invention or inventions described or claimed in said patent;

(b) The purported invention or inventions described or claimed in said patent are not patentable in view of the state of the art at the time said purported invention or inventions were made;

(c) More than one year prior to the date on which the application for said patent was filed the purported [3] invention or inventions described or claimed in said patent were in public use and on sale in the United States;

(d) More than one year prior to the date on which the application for said patent was filed the purported invention or inventions described or claimed in said patent were described in printed publications in the United States or a foreign country.

8. The Plaintiff is informed and believes and therefore alleges that claim 2 of said patent is invalid and void for the following reasons:

(a) The changes and amendments in the claims and specification of the application for said patent during the prosecution of said application in the Patent Office broadened the application to embrace a purported invention not described in the original application as filed;

(b) The subject matter of said claim is not embraced in the statement of invention or claims of the original application and no supplemental oath was filed to cover the subject matter of such claim.

9. By reason of the foregoing allegations an actual controversy now exists between the parties to

this action so that Plaintiff needs a declaration of its rights by this court.

Wherefore, Plaintiff prays:

(1) For a judgment declaring that United States Patent No. 2,767,702 is invalid;

(2) For a judgment declaring that said patent is not infringed by Plaintiff;

(3) That a preliminary and final injunction be issued by this court enjoining Defendant from asserting that said patent or any claim thereof has been or is now being infringed by Plaintiff; [4]

(4) That Plaintiff be awarded its costs and attorneys' fees in this suit.

CHRISTIE, PARKER &
HALE,

/s/ By JAMES B. CHRISTIE,

/s/ By RICHARD B. HOEGH. [5]

[Endorsed]: Filed February 8, 1957.

[Title of District Court and Cause.]

ANSWER AND COUNTERCLAIM

Defendant, The Coleman Company, Inc., answering the complaint herein, states as follows:

1. Admits the allegations of paragraph 1 of the complaint.

2. Admits the allegations of paragraph 2 of the complaint.

3. Admits the allegations of paragraph 3 of the complaint.

4. Admits the allegations of paragraph 4 of the complaint.

5. Admits the allegations of paragraph 5 of the complaint.

6. Admits that it received a letter from plaintiff dated February 6, 1957, denying infringement, but denies the remainder of the allegations of paragraph 6 of the complaint.

7. Denies the allegations of paragraph 7 of the complaint.

8. Denies the allegations of paragraph 8 of the complaint.

9. Admits the allegations of paragraph 9 of the complaint. [22]

Counterclaim

Further answering, and by way of counterclaim against plaintiff, defendant avers:

10. This is a suit for infringement of United States Letters Patent No. 2,767,702 for a Wall Heater and Economizer Structure, and this Honorable Court has jurisdiction because this is an action arising under the patent laws of the United States.

11. Defendant, The Coleman Company, Inc., is a corporation organized and existing under the laws of the State of Kansas, and plaintiff is a corporation organized and existing under the laws of the

State of Delaware and has a regular and established place of business at 875 S. Arroyo Parkway, City of Pasadena, County of Los Angeles, and State of California.

12. On October 23, 1956, said United States Letters Patent No. 2,767,702 were duly and legally issued to the defendant, The Coleman Company, Inc., for an invention entitled "Wall Heater and Economizer Structure", and defendant is the sole owner and holder of said Letters Patent.

13. Since the issuance of said Letters Patent on October 23, 1956, plaintiff has infringed said Letters Patent by making, selling, and using the structure covered by said patent, and will continue to infringe said patent unless enjoined by this Honorable Court.

14. Defendant has notified plaintiff in writing of said Letters Patent.

15. On or about December 31, 1956, the defendant notified plaintiff of said alleged infringement of said United States Letters Patent No. 2,767,702, issued on October 23, 1956, but in spite of such notice, plaintiff continues, and threatens to continue, such infringement. Plaintiff is deriving profits from said infringing acts and defendant has been damaged.

Wherefore, defendant prays: [23]

1.) For a judgment holding said Letters Patent No. 2,767,702 valid.

2.) For a judgment holding said Letters Patent No. 2,767,702 infringed by plaintiff.

3.) That an injunction be issued restraining plaintiff, its directors, officers, employees, and others acting by or under plaintiff's direction or authority, from making, selling, using or otherwise infringing said Letters Patent No. 2,767,702.

4.) That plaintiff be required to account for and pay to the defendant all damages suffered by defendant as a result of plaintiff's said infringement.

5.) That defendant be awarded its costs and such other and further relief as may be deemed proper in the circumstances.

PARKER, STANSBURY, REESE &
McGEE, DAWSON, TILTON,
FALLON & LUNGMUS,

/s/ By RAYMOND G. STANBURY,
Attorneys for Defendant. [24]

Affidavit of Service by Mail Attached. [25]

[Endorsed]: Filed May 6, 1957.

[Title of District Court and Cause.]

ANSWER TO DEFENDANT'S
COUNTERCLAIM

The plaintiff, The Siegler Corporation, answers the defendant's counterclaim as follows:

1. Admits that by its counterclaim the defendant has alleged infringement of United States Letters Patent No. 2,767,702 and that this court has jurisdiction of the subject matter of the counterclaim. Plaintiff denies that it has infringed or is infringing the patent in the suit.

2. Admits the allegations of paragraph 11 of the counterclaim.

3. Admits that on October 23, 1956 United States Letters Patent No. 2,767,702 was issued to the defendant and that the defendant is the sole owner and holder of said Letters Patent. Except as expressly admitted, plaintiff denies the allegations of paragraph 12 of the counterclaim. [26]

4. Denies the allegations of paragraph 13 of the counterclaim.

5. Admits the allegations of paragraph 14 of the counterclaim.

6. Admits that on or about December 31, 1956 the defendant notified the plaintiff of alleged infringement of United States Letters Patent 2,767,702 issued on October 23, 1956. Except as expressly admitted, plaintiff denies each and every allegation of paragraph 15 of the counterclaim.

For a First Affirmative Defense to the counterclaim, plaintiff alleges as follows:

7. Plaintiff hereby incorporates by reference each and every allegation of paragraph 7 of the plaintiff's complaint for declaratory judgment in the above entitled action.

For a Second Affirmative Defense against the counterclaim the plaintiff alleges as follows:

8. Plaintiff hereby incorporates by reference each and every allegation of paragraph 8 of the plaintiff's complaint for declaratory judgment in the above entitled action.

Wherefore the plaintiff prays that the defendant take nothing by its counterclaim and that the plaintiff be awarded its costs and attorney's fees.

CHRISTIE, PARKER & HALE,
/s/ By RICHARD B. HOEGH,
Attorneys for Plaintiff. [27]

[Endorsed]: Filed May 29, 1957.

[Title of District Court and Cause.]

INTERROGATORIES TO DEFENDANT

Plaintiff requests that the defendant, The Coleman Company, Inc., by an officer thereof competent to testify on its behalf, answer under oath, in accordance with Rule 33 of the Federal Rules of Civil Procedure, the following interrogatories: [39]

* * * * *

[Note: Interrogatories are the same as set out in Answers of Defendant at pages 13-26.]

Dated: November 27, 1957.

CHRISTIE, PARKER & HALE,
JAMES B. CHRISTIE,
C. RUSSELL HALE,
RICHARD B. HOEGH,
ASHLEY STEWART ORR,

/s/ By RICHARD B. HOEGH,
Attorneys for Plaintiff. [47]

Affidavit of Serve by Mail Attached. [48]

[Endorsed]: Filed November 29, 1957.

[Title of District Court and Cause.]

DEFENDANT'S ANSWERS TO PLAINTIFF'S INTERROGATORIES

Defendant, The Coleman Company, Inc., by Alwin B. Newton, its Vice President in Charge of Design and Research, answers the interrogatories served on it by the plaintiff and dated November 27, 1957 as follows:

It is understood that plaintiff manufactured a "first series" of wall heaters from approximately 1950 to 1954 which included models 25NS, 25ND, 35NS, 35ND, 50ND and 57ND; that defendant manufactured a "second series" of wall heaters from sometime in 1954 to about January, 1957 which included models 250S, 250D, 350S, 350D, 500D, and 570D; and that plaintiff manufactured a "third

series'' of wall heaters from about January, 1957 to the present which include models 25S, 25D, 35S, 35D, 50D, and 55D. For purpose of conciseness the term "first series", "second series", and "third series", as thus understood and defined, will be used in the following answers.

Interrogatories Nos. 1 to 6

1. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly Wall heaters designated as Model 25 NS.

2. State which claim or claims, if any, the defendant contends to be infringed by plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 25 ND.

3. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 35 NS.

4. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 35 ND.

5. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company,

in manufacturing and selling Holly wall heaters designated as Model 50 ND.

6. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 57 ND.

Answers to Interrogatories Nos. 1 to 6

Defendant in answering the above interrogatories collectively, does not contend that any claim of the patent in suit is infringed by any model of the "first series", being those designated in the above interrogatories.

Interrogatories Nos. 7 to 12

7. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 250 S.

8. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 250 D.

9. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 350 S.

10. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 350 D.

11. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 500 D.

12. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 570 D.

Answers to Interrogatories Nos. 7 to 12

Defendant in answering the above interrogatories collectively, on the basis of present information and belief, contends that Claim 2 of the patent in suit is infringed by each and all models of the "second series", being those designated in interrogatories 7 to 12.

Interrogatories Nos. 13 to 18

13. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 25 D.

14. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff

or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 25 S.

15. State which claim or claims, if any, the defendant claims to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 35 D.

16. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 35 C.

17. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 50 D.

18. State which claim or claims, if any, the defendant contends to be infringed by the plaintiff or its predecessor, Holly Manufacturing Company, in manufacturing and selling Holly wall heaters designated as Model 55 D.

Answers to Interrogatories Nos. 13 to 18

Defendant in answering the above interrogatories collectively, contends on the basis of information and belief that Claim 2 of the patent in suit is infringed by each and all models of the "third series", being those designated in interrogatories 13 to 18.

Interrogatories Nos. 19 to 23

19. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a wall heater having a lower casing provided with an inlet port and spaced therefrom an outlet port, as claimed in claim 1 of the patent in suit.

20. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a lower casing being adapted to be positioned at least partially within a room wall at the bottom portion thereof, as claimed in claim 1 of the patent in suit.

21. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a lower casing having means forming a combustion chamber mounted therein whereby air flowing thereinto through said inlet port is heated as it rises toward said inlet port, as claimed in claim 1 of the patent in suit.

22. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a barrier plate forming a closure wall across said casing near the top thereof, as claimed in claim 1 of the patent in suit.

23. State which model or models, if any, of Holly

wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a flue communicating at its lower end with said combustion chamber and adapted to extend upwardly above said barrier plate and between the space panels of a room wall, as claimed in claim 1 of the patent in suit.

Answers to Interrogatories 19 to 23

Defendant in answering the above interrogatories collectively on the basis of its information and belief states that each and all of the models of the first, second and third series include the specified elements, being those designated in all of the foregoing interrogatories.

Interrogatory No. 24

24. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a lower casing including an inlet casing portion above said barrier plate and having an inclined top wall forming a hood extending outwardly from a panel of said wall and being provided with an inlet opening there-through, as claimed in claim 1 of the patent in suit.

Answer to Interrogatory No. 24

Defendant in answering the above interrogatory on the basis of information and belief states that none of the models of the first, second, or third series include the specified element.

Interrogatory No. 25

25. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a flue casing about said flue above said barrier plate and being spaced from said flue to define a flow passage thereabout, as claimed in claim 1 of the patent in suit.

Answer to Interrogatory No. 25

Defendant in answering the above interrogatory on the basis of information and belief states that all of the models of the first, second and third series include the specified element.

Interrogatory No. 26

26. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a flue casing having an inlet opening above and adjacent said barrier plate whereby air flowing into the flue casing sweeps that plate in heat exchange relation therewith, as claimed in claim 1 of the patent in suit.

Answer to Interrogatory No. 26

Defendant in answering Interrogatory No. 26 on the basis of information and belief states that each of the models of the second and third series include the specified element but that none of the models of the first series include it.

Interrogatory No. 27

27. State which model or models, if any, of Holly

wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a flue casing having an enlarged opening spaced above said inlet opening but adapted to be below the ceiling level of a room space, as claimed in claim 1 of the patent in suit.

Answer to Interrogatory 27

Defendant in answering the above interrogatory on the basis of information and belief states that all of the models of the first, second and third series included the specified element.

Interrogatory No. 28

28. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a closure plate within said flue casing dividing the same into flow-separated passage sections, as claimed in claim 1 of the patent in suit.

Answer to Interrogatory 28

Defendant in answering the above interrogatory on the basis of information and belief states that none of the models of the first, second or third series included the specified element.

Interrogatory No. 29

29. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company,

the defendant contends include a closure plate horizontally dividing said enlarged opening to form an outlet opening below the closure plate and an additional inlet opening above the closure plate, whereby within a room space, one increment of air flows into said heater casing through the inlet port thereof and after being heated, flows outwardly through the outlet port thereof, a second increment of air flows through said hood inlet opening, upwardly through said flue casing in heat exchange relation with said flue and outwardly through said flue casing outlet opening, a third increment of air flows inwardly into said flue casing through said additional inlet opening and upwardly in heat exchange relation with said flue, as claimed in claim 1 of the patent in suit.

Answer to Interrogatory No. 29

Defendant in answering the above interrogatory on the basis of information and belief states that none of the models of the first, second or third series include the specified element.

Interrogatories Nos. 30 to 36

30. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a vertically-extending lower heater casing for housing a combustion chamber, as claimed in claim 2 of the patent in suit.

31. State which model or models, if any, of Holly

wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include an economizer casing extending above said lower heating casing, as claimed in claim 2 of the patent in suit.

32. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a barrier plate extending across said lower heater casing beneath said economizer casing and near the top of said lower heater casing, as claimed in claim 2 of the patent in suit.

33. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a flue extending through said barrier plate from within said lower heater casing and through said economizer casing and in spaced relation to the side walls thereof, as claimed in claim 2 of the patent in suit.

34. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include the upper portion of the front of said lower heater casing providing a heated air outlet adjacent the under side of said barrier plate, as claimed in claim 2 of the patent in suit.

35. State which model or models, if any, of Holly

wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include the front portion of said lower heater casing projecting outwardly further than the front portion of said economizer casing, as claimed in claim 2 of the patent in suit.

36. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a projecting portion including the forward portion of said barrier plate and providing a casing hood portion extending above and over said barrier plate forward portion, as claimed in claim 2 of the patent in suit.

Answers to Interrogatories 30 to 36

Defendant in answering the above interrogatories collectively, on the basis of information and belief states that each of the models of the first, second and third series include the specified elements.

Interrogatory No. 37

37. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include a casing hood portion being spaced from said barrier plate forward portion to provide a passage for the flow of air over the upper surface of said barrier plate forward portion, as claimed in claim 2 of the patent in suit.

Answer to Interrogatory 37

Defendant in answering the above interrogatory

on the basis of information and belief states that each model of the second and third series included the specified element but that said element was not included in any model of the first series.

Interrogatories Nos. 38 and 39

38. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include an economizer casing having an air inlet near the bottom of the front thereof and an air outlet above said inlet but adapted to be below the ceiling level of a room space, as claimed in claim 2 of the patent in suit.

39. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company, the defendant contends include an economizer air inlet being positioned inwardly of said barrier plate forward portion and adjacent the upper surface of said barrier plate, as claimed in claim 2 of the patent in suit.

Answers to Interrogatories 38 and 39

Defendant in answering the above interrogatories collectively, on the basis of information and belief state that each model of the first, second and third series included the specified elements.

Interrogatory 40

40. State which model or models, if any, of Holly wall heaters manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company,

the defendant contends include a casing hood portion providing a room air inlet opening, said room air inlet means adapted to communicate on one side with the room atmosphere and on the other with said air passage over the upper surface of the forward portion of said barrier plate and said room air inlet means being constructed and arranged to cause room air to pass over the said upper surface of the said barrier plate forward portion in heat exchange relation therewith, as claimed in claim 2 of the patent in suit.

Answer to Interrogatory No. 40

Defendant in answering the above interrogatory on the basis of information and belief states that each model of the second and third series included the specified element but that said element was not included in any model of the first series.

Interrogatories Nos. 41 to 45

41. State whether or not any wall heaters manufactured or sold by the defendant have been marked with the legend "Patent No. 2,767,702," or "patent No. 2,767,702," or a similar legend which includes the patent number of the patent in suit.

42. State which models, if any, of wall heaters manufactured or sold by the defendant have been marked with the number of the patent in suit.

43. State the date on which patent marking pertaining to Patent No. 2,767,702 was first placed on any wall heaters manufactured or sold by the defendant on or after October 23, 1956.

44. State all types of marking, pursuant to 35 U.S.C., Section 287, which has been placed upon any wall heaters manufactured or sold by the defendant.

45. Where, on any wall heaters manufactured or sold by the defendant, is any marking of the patent in suit placed.

Answers to Interrogatories 41 to 45

Defendant in answering the above interrogatories collectively admits that its gas wall heaters which were being manufactured and sold at the time of issuance of the patent in suit and which wall heaters have subsequently been discontinued were not marked with any notice by patent number or otherwise with respect to the patent in suit.

ALWIN B. NEWTON,
Vice President, Design & Research, The Coleman
Company, Inc.

State of Kansas

County of Sedgwick—ss.

Alwin B. Newton, being duly sworn, deposes and says that he resides at 3511 Elmwood Drive, Wichita 17, Kansas; that he is the Vice President in charge of Design and Research of The Coleman Company, Inc., defendant herein; and that he has read the foregoing answers to interrogatories and knows the contents thereof and that the same are true of his own knowledge, except as to matters

therein stated to be on information and belief, and as to those matters he believes them to be true.

/s/ ALWIN B. NEWTON.

Subscribed and sworn to before me this 3rd day of February, 1958.

[Seal] /s/ LILLIAN A. DICKENS,

Notary Public in and for said County and State.

My Commission Expires June 29, 1959.

Affidavit of Service by Mail Attached. [14]

[Endorsed]: Filed February 11, 1958.

[Title of District Court and Cause.]

PLAINTIFF'S REQUESTS FOR ADMISSIONS

The plaintiff requests that the defendant, The Coleman Company Inc., pursuant to the provisions of Rule 36 of the Federal Rules of Civil Procedure, admit or deny the following facts: [49]

* * * * *

[Note: Facts to be admitted are set out in the Defendant's Reply at pages 29-30.]

Dated this 27th day of November, 1957.

/s/ RICHARD B. HOEGH.

Affidavit of Service by Mail Attached. [51]

[Endorsed]: Filed November 29, 1957.

[Title of District Court and Cause.]

NOTICE PURSUANT TO 35 U.S.C. SEC. 282

You and Each of You Will Please Take Notice that as presently advised, plaintiff will rely upon the following prior art as showing anticipation of the patent in suit:

United States Letters Patent No. 268,860, issued to Browell on December 12, 1882, and will present the testimony of the following named person as the prior inventor, or as having prior knowledge of, or as having previously used the purported invention of the patent in suit: John H. Hollingsworth, 1976 North Roosevelt Avenue, Altadena, California. [55]

This notice is given pursuant to 35 U.S.C. Sec. 282.

Dated January 14, 1958.

CHRISTIE, PARKER & HALE,
/s/ By RICHARD B. HOEGH. [56]

Affidavit of Service by Mail Attached. [57]

[Endorsed]: Filed January 15, 1958.

[Title of District Court and Cause.]

DEFENDANT'S REPLY TO PLAINTIFF'S
REQUEST FOR ADMISSIONS UNDER
RULE 36

State of Kansas

County of Sedgwick—ss.

Alwin B. Newton, being duly sworn on oath and in response to Plaintiff's Request for Admissions Under Rule 36, responds to the six paragraphs of Plaintiff's Request as follows:

1. That claim 1 of the patent in suit does not cover wall heater models 25NS, 25ND, 35NS, 35ND, 50ND or 57ND manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

Answer: Admitted.

2. That claim 1 of the patent in suit does not cover wall heater models 250S, 250D, 350S, 350D, 500D, 570D manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

Answer: Admitted. [65]

3. That claim 1 of the patent in suit does not cover wall heater models 25S, 25D, 35S, 35D, 50D, 55D manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

Answer: Admitted.

4. That claim 2 of the patent in suit does not cover wall heater models 25NS, 25ND, 35NS, 35ND,

50ND or 57ND manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

Answer: Defendant is not in a position to formally admit or deny this request at the present time since it has had no opportunity to examine all of the heater models specified in plaintiff's request No. 4. On the basis of information and belief, however, it is probably true that Claim 2 of the patent in suit does not cover wall heater models 25NS, 25ND, 35NS, 35ND, 50ND and 57ND manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

5. That claim 2 of the patent in suit does not cover wall heater models 250S, 250D, 350S, 350D, 500D, 570D manufactured and sold by the plaintiff or its predecessor Holly Manufacturing Company.

Answer: Defendant is not in a position to formally admit or deny plaintiff's request No. 5 since it has not had an opportunity to examine all of the models specified therein. On the basis of information and belief, however, it is probable that Claim 2 of the patent in suit does cover and is infringed by wall heater models 250S, 250D, 350S, 350D, 500D and 570D manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

6. That claim 2 of the patent in suit does not cover wall heater models 25S, 25D, 35S, 35D, 50D, 55D manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

Answer: Defendant is unable to formally admit or deny [66] plaintiff's request No. 6 since it has not had an opportunity to examine all of the models specified therein. On the basis of information and belief, however, it is probably true that Claim 2 in the patent in suit does cover and is infringed by wall heater models 25S, 25D, 35S, 35D, 50D and 55D manufactured and sold by the plaintiff or its predecessor, Holly Manufacturing Company.

/s/ ALWIN B. NEWTON,
Vice President, Design and Research, The Coleman
Company, Inc.

Subscribed and sworn to before me, a notary public, this 3rd day of February, 1958.

[Seal] /s/ LILLIAN A. DICKENS,
Notary Public.

My Commission Expires June 29, 1959. [67]

Affidavit of Service by Mail Attached. [68]

[Endorsed]: Filed February 11, 1958.

[Title of District Court and Cause.]

INTERROGATORIES TO PLAINTIFF

Defendant requests that the plaintiff, The Siegler Corporation, by an officer thereof competent to testify on its behalf, answer under oath, in accordance with Rule 33 of the Federal Rules of Civil Procedure, the following interrogatories: [69]

* * * * *

[Note: Interrogatories are the same as set out in Answers of Plaintiff at pages 32-34.]

Dated: February 20, 1958.

PARKER, STANSBURY, REESE &
McGEE, DAWSON, TILTON,
FALLON & LUNG MUS,

/s/ By RAYMOND G. STANSBURY,
Attorneys for Defendant. [70]

Affidavit of Service by Mail Attached. [71]

[Endorsed]: Filed February 21, 1958.

[Title of District Court and Cause.]

PLAINTIFF'S ANSWERS TO DEFENDANT'S INTERROGATORIES

Pursuant to Rule 33 of the Federal Rules of Civil Procedure, plaintiff answers defendant's interrogatories as follows:

1. "With respect to plaintiff's 'first series' of wall heaters, including models 25NS, 25ND, 35NS, 35ND, 50ND and 57ND, can the model 35NS be taken as representative or typical of the operation of all of the models of said first series with respect to the issues in this suit? If not, state which model or models may so be taken as typical or representative."

Plaintiff's model 35NS cannot be taken as representative or typical of the operation of all the models of plaintiff's first series with respect to the is-

sues of this suit. No model [72] of plaintiff's first series may be taken as typical or representative.

2. "With respect to plaintiff's 'second series' of wall heaters, including models 250S, 250D, 350S, 350D, 500D, and 570D, can model 350S be taken as representative or typical of the operation of all of the models of said second series with respect to the issues in this suit? If not, state which model or models may be so taken as typical or representative."

Plaintiff's model 350S cannot be taken as representative or typical of the operation of all the models of plaintiff's second series with respect to the issues of this suit. No model of plaintiff's second series may be taken as typical or representative.

3. "With respect to plaintiff's 'third series' of wall heaters, including models 25S, 25D, 35S, 35D, 50D and 55D, can model 35S be taken as representative or typical of the operation of all of the models of said third series with respect to the issues in this suit? If not, state which model or models may be so taken as typical or representative."

Plaintiff's model 35S cannot be taken as representative or typical of the operation of all the models of plaintiff's third series with respect to the issues of this suit. No model of plaintiff's third series may be so taken as typical or representative.

4. "With further reference to plaintiff's 'third series' of wall heaters, is there any difference in

the operation of model 25S from model 35S with respect to the issues in this suit?"

The difference in input between the model 25S and the model 35S of plaintiff's third series of wall heaters causes [73] differences in the volume of air flow through the heaters and in the amount of heat which is transmitted from the heater to the air flowing through the heater. Plaintiff does not consider that either the 25S or the 35S can possibly be considered to infringe the defendant's patent and for that reason states that there is no difference in operation between the two models with respect to the issues of this law suit. However, to the extent that the issues of this law suit may be resolved upon a matter of degree of heat transfer or air flow, there is a difference in the operation between the two models.

Dated this 7th day of March, 1958.

CHRISTIE, PARKER & HALE,
/s/ By RICHARD B. HOEGH.

State of California
County of Los Angeles—ss.

Paul H. Hammond, being duly sworn, deposes and says that he is the Assistant Secretary of The Siegler Corporation; and that he has read the foregoing answers to interrogatories and knows the contents thereof and that the same are true of his own knowledge, except as to matters therein stated to be on information and belief, and as to those matters he believes them to be true.

/s/ PAUL H. HAMMOND.

Subscribed and sworn to before me this 7th day of March, 1958.

[Seal] /s/ BERNICE GOGO,
Notary Public in and for the County of Los Angeles, State of California. My Commission Expires May 8, 1960. [74]

Affidavit of Service by Mail Attached. [75]

[Endorsed]: Filed March 10, 1958.

[Title of District Court and Cause.]

PRETRIAL STATEMENT

The parties hereto, for the purpose of simplifying the issues, agree as follows:

1. That the defendant is the owner of United States Letters Patent No. 2,767,702. (This is referred to as the Giwosky Patent and covers a type of wall heater.)

2. That on or about December 31, 1956 the defendant, by a letter addressed to Holly Manufacturing Company, Inc., gave notice to said addressee of alleged infringement of the aforesaid patent. It is admitted that said notice was effective as to plaintiff.

3. That ever since November 29, 1955, Holly Manufacturing Company, Inc. has been, and now is, a division of plaintiff company, and is known as "Holly Manufacturing Company, a division of The Siegler Corporation." [76]

4. On February 8, 1957 plaintiff filed this action for declaratory relief, alleging non-infringement and invalidity.

5. On May 6, 1957 defendant filed its answer and counterclaim. By said counterclaim defendant seeks an adjudication of validity and infringement, an injunction and an accounting of damages.

6. Plaintiff manufactured and sold its "first series" of wall heaters from approximately 1950 to 1954 which included models 25NS, 25ND, 35NS, 35ND, 45ND and 55ND; its "second series" of wall heaters from some time in 1954 to about January, 1957 which included models 250S, 250D, 350S, 350D, 500D, and 570D; and its "third" or "current" series of wall heaters from about January, 1957 which includes models 25S, 25D, 35S, 35D, 50D, and 55D. In all the foregoing model designations the first two numerals indicate the rated capacity in thousands of B.T.U.'s and the last letter indicates whether the model is a single or double wall type (e.g. 25NS is a 25,000 B.T.U. single wall model, 350D is a 35,000 B.T.U. double wall model, etc.).

7. The Giwosky patent in suit contains two claims. Claim 1 is not in issue under the pleadings of either party. The contentions of the parties with respect to the issues herein relate to Claim 2 of said patent.

Statement of Contentions

Plaintiff's Contentions

1. The plaintiff contends that the aforesaid letters patent are invalid for the following reasons:

(a) Harry Giwosky, named in said patent as the inventor, was not the first inventor of the purported invention or inventions described or claimed in said patent; [77]

(b) The purported invention or inventions described or claimed in said patent are not patentable in view of the state of the art at the time said purported invention or inventions were made;

(c) More than one year prior to the date on which the application for said patent was filed the purported invention or inventions described or claimed in said patent were in public use and on sale in the United States;

(d) More than one year prior to the date on which the application for said patent was filed the purported invention or inventions described or claimed in said patent were described in printed publications in the United States or a foreign country;

(e) The changes and amendments in the claims and specification of the application for said patent during the prosecution of said application in the Patent Office broadened the application to embrace a purported invention not described in the original application as filed;

(f) The subject matter of said claim is not embraced in the statement of invention or claims of the original application and no supplemental oath was filed to cover the subject matter of such claim.

2. Plaintiff, with respect to the claim of invalid-

ity of the patent, will further rely on United States Patent No. 268,860, issued to Browell, December 12, 1882; United States Patent No. 2,602,441, issued to Holly Manufacturing Company July 8, 1952; the file history of the Giwosky Patent No. 2,677,702; and testimony of John H. Hollingsworth, Altadena, California. [78]

3. Plaintiff alleges that the Giwosky Patent is not infringed by any of its wall heaters.

Defendant's Contentions

1. Defendant contends that the manufacture and/or sale of plaintiff's "second series" of wall heaters and plaintiff's "current" or "third" series of wall heaters (as to each and all models of both of said series) infringe the Giwosky patent. It is not contended that plaintiff's "first series" of wall heaters would have infringed the Giwosky patent even if heaters of said "first series" were manufactured and/or sold after the issuance of said Giwosky patent.

2. Defendant contends that the Giwosky patent is good and valid in law, and that defendant's counterclaim for infringement against plaintiff cannot be defeated for any of the alleged reasons specified herein under "Plaintiff's Contentions".

3. With respect to plaintiff's "first series" of wall heaters, defendant contends that none of the heaters of this series which were manufactured and/or sold prior to October 1, 1953 (the filing date of the Giwosky patent application) were an-

ticipatory of the novel construction and arrangement of the combination wall heater and economizer covered by the patent in suit, said "first series" according to defendant's contention being constructed entirely according to plaintiff's Hollingsworth et al. Patent No. 2,602,441 without incorporating the distinctive features of defendant's Giwosky patent No. 2,767,702.

Signed at Los Angeles, California, this 25th day of March, 1958.

CHRISTIE, PARKER & HALE,

/s/ By RICHARD B. HOEGH.

PARKER, STANBURY, REESE &
McGEE,

/s/ By RAYMOND G. STANBURY. [79]

[Endorsed]: Filed March 28, 1958.

[Title of District Court and Cause.]

AFFIDAVITS, PRIOR ART PATENTS IN
SUPPORT OF PLAINTIFF'S MOTION
FOR SUMMARY JUDGMENT

AFFIDAVIT OF HARRY L. GIWOSKY

Harry L. Giwosky, being duly sworn, deposes and states as follows:

1) I am the Harry L. Giwosky who filed application Serial No. 383,472 on October 1, 1953, for improvements in wall heaters and upon which United States Patent No. 2,767,702 was granted October 23, 1956.

2) At and prior to the time that I designed the wall heater and economizer structure that is shown and described in said application I was employed by The Coleman Company at Wichita, Kansas. I left the employ of The Coleman Company in April 1954, and since that time I have been employed by David White Instrument Company in Milwaukee, Wisconsin. I am now Vice President of Manufacturing for the David White Instrument Company.

3) The Coleman Company made a practice of obtaining [81] all the heaters sold by its competitors. Prior to the time that I designed the wall heater and economizer structure that is shown and described in said patent application, I had examined and was familiar with the wall heaters equipped with secondary heat exchangers made and sold by the Holly Manufacturing Company of Pasadena, California.

4) The wall heater and economizer structure shown and described in said patent application has a third stage of heat exchange. Referring to the drawings in the patent application the third stage of heat exchange occurs between flue gases traveling upward in the flue 17 and room air drawn into the casing 22 (which surrounds the flue below the ceiling of the room) through the opening 27. This room air, after passing upwardly through the casing 22, is discharged upwardly into the annulus between the pipes 29 and 30 and thence into the attic or outside the house.

5) Prior to the time that I filed said application I had built and tested a wall heater and economizer structure similar in all respects to that shown and described in said application, except that it lacked the third stage of heat exchange referred to above and had found that such a wall heater was unsatisfactory because of overheating in the upper part of the economizer. This wall heater and economizer structure had only two stages of heat exchange. It was submitted to the American Gas Association for test and failed to pass.

6) My said application, as originally filed, was directed to a wall heater and economizer structure with three stages of heat exchange, one in the primary wall heater proper near the floor of the room and two along the flue above said wall heater. This is shown by the statement in the application as originally filed (page 2, lines 11-15) that [82]

“* * * A still further object is to provide a structure in which a plurality of cooling streams are employed in connection with the flue, the streams being introduced at the points where greatest danger of overheating is present.”

and by the statement (page 5, lines 13-26) that

“In the foregoing structure it will be observed that in addition to the air heated by the primary wall heater, there are introduced into the wall interior or into the casing 22 therein, at least two increments of cooling air. The first increment, which is entirely separate from the air being heated by the wall heater, is that increment introduced

through the openings 20 and 21, and it will be observed that this cool air is impinged upon the closure plate 18 immediately above the wall heater casing. The second point at which a dangerously high temperature might be reached is the closure 26 at the upper end of the economizer, and at this point the second increment of cool air passing inwardly through opening 27 is impinged."

7. The first point at which a dangerously high temperature might be reached in the economizer shown and described in my application is where the wall panel 12 comes in contact with the flange near the bottom of the economizer casing 22. I have marked this point "A" on the attached copy of United States Patent No. 2,767,702. The wall panel 12 may be made of combustible material and may catch fire if it is heated too highly. The closure plate 18, on the contrary, is not in contact with combustible material and represents no fire hazard even if it is highly heated. Consequently, there is no need to construct or arrange the room air inlets 20, 21, which are located above this barrier plate to cause room air admitted through these inlet means to pass over any portion of this barrier plate in [83] heat exchange relation therewith. Whether or not this room air is in heat exchange relationship with the barrier plate is of no consequence, and I have never regarded that such heat exchange relation is a part of the invention for which I filed said application.

8) As originally filed, my said application con-

tained six claims, all of which were limited to wall heater structures with three stages of heat exchange, the second and third being along the flue above the wall heater. None of these claims required that room air be brought into heat exchange relationship with the barrier plate that separates the first and second stages of heat exchange.

9) I was not informed as to any amendments made in the specification and claims of my application during its prosecution in the United States Patent Office, nor did I ever receive a request to make any oath that the subject matter of any of said amendments was part of my invention and was invented before I filed my original application. I have never made any such oath.

10) I have read United States Patent No. 2,767,702 granted October 23, 1956, and am familiar with it. I have observed that claim 1 of said patent requires the three stages of heat exchange, including the third stage without which I had found that the wall heater and economizer structure shown and described in said patent were unsatisfactory and would not meet AGA requirements. However, claim 2 of said patent makes no reference to the third stage, which prior to the time my patent application was filed, I had found to be essential to the proper operation of the device to which the patent is directed and which was required by the claims as originally filed.

11) Both claims 1 and 2 of United States Patent No. 2,767,702 require that room air introduced

into the second stage of heat exchange be brought into heat exchange relationship with the [84] barrier plate at the bottom of the economizer. As I have already stated, this heat exchange relationship is of no consequence. I never considered that the bringing about of such relationship was a part of the invention to which my application was directed and never intended to claim it as a part thereof.

12) I, Harry L. Giwosky, the affiant herein, am competent to testify to the matters herein stated.

/s/ HARRY L. GIWOSKY.

State of Wisconsin

County of Milwaukee—ss.

Subscribed and sworn to before me this 20th day of November, 1957.

[Seal] /s/ G. R. FLYNN,

Notary Public. 3-12-1961. [85]

[H. L. Giwosky Patent No. 2,767,702 dated October 23, 1956 is set out in the Book of Exhibits at page 314.]

AFFIDAVIT OF PAUL H. HAMMOND

State of California

County of Los Angeles—ss.

I, Paul H. Hammond, being duly sworn, state as follows: I am an Assistant Secretary of The Siegler Corporation and all books, records and accounts kept by The Siegler Corporation at its place of

business at 875 South Arroyo Parkway, Pasadena, California, are under my direct supervision and control. On or about November 29, 1955, The Siegler Corporation acquired all the assets of Holly Manufacturing Company, located at 875 South Arroyo Parkway, Pasadena, California. Prior to November 29, 1955, I was a Vice President of Holly Manufacturing Company. The records of Holly Manufacturing Company show that Holly's "second series" of wall heaters went into production in February, 1954, and the first sales of wall heaters in the "second series" were sales of Model 350S in April, 1954. Holly's so-called "second series" of wall heaters were sold continuously thereafter throughout the United States during the remainder of the year 1954, and the years 1955 and 1956.

/s/ PAUL H. HAMMOND.

Subscribed and sworn to before me this 28th day of March, 1958.

[Seal] /s/ LENORE TAFOYA,
Notary Public in and for said County and State.

My Commission Expires May 13, 1960. [89]

[J. H. Hollingsworth et al. Patent No. 2,602,-
441 dated July 8, 1952 and J. Browell Patent
No. 268,860 dated Dec. 12, 1882 is set out in the
Book of Exhibits at pages 317-325.]

[Endorsed]: Filed March 31, 1958.

[Title of District Court and Cause.]

NOTICE OF PLAINTIFF'S MOTION
FOR SUMMARY JUDGMENT

To: The Defendant Above-Named and to Parker, Stanbury, Reese and McGee, and Raymond G. Stanbury, Esq., its attorneys:

You and Each of You Will Please Take Notice That on Monday, April 7, 1958, at 9:30 a.m., in the courtroom of Judge William C. Mathes, Federal Building, Los Angeles, California, the plaintiff will move and now moves for a summary judgment declaring claim 2 of United States Letters Patent No. 2,767,702 invalid for the following reasons:

1. That the named inventor was not the inventor nor the first inventor of the device claimed in claim 2;
2. That the device claimed in claim 2 is anticipated by the prior art;
3. That claim 2 covers new matter not claimed in the application as originally filed; and
4. That no supplemental oath by the named inventor [165] or any other person was filed as required.

This motion will be based upon the records on file in the above designated action, the attached affidavit of Harry L. Giwosky, together with a copy of Patent No. 2,767,702, the affidavit of Paul H. Hammond, Patent No. 2,602,441 issued to Hollings-

worth, et al., Patent No. 268,860 issued to Browell, certified copy of the file wrapper of Patent No. 2,767,702, and Memorandum of Points and Authorities served and filed in support of this motion, including the admissions of the defendant set forth therein.

Dated: This 28th day of March, 1958.

CHRISTIE, PARKER & HALE,
JAMES B. CHRISTIE,
C. RUSSELL HALE,
RICHARD B. HOEGH,
ASHLEY STEWART ORR,

/s/ By RICHARD B. HOEGH,
Attorneys for Plaintiff. [166]

Affidavit of Service by Mail Attached. [167]

[Endorsed]: Filed March 31, 1958.

[Title of District Court and Cause.]

MEMORANDUM IN SUPPORT OF MOTION FOR SUMMARY JUDGMENT

Harry L. Giwosky, named as the inventor in the patent in suit, No. 2,767,702, has stated under oath that he did not invent the subject matter of claim 2 of the patent, the only claim that Coleman alleges that Siegler infringes. Siegler, therefore, moves for a summary judgment of invalidity of claim 2, on the grounds that the named inventor was not the inventor nor the first inventor of the device claimed in claim 2. Further grounds for the

motion for summary judgment are that the device claimed in claim 2 is anticipated by the prior art, that claim 2 covers new matter not claimed in the application as originally filed, and that no supplemental oath by the named inventor was filed as required by law. [168]

I.

Harry Giwosky Did Not Invent the Device Claimed in Claim 2

The Giwosky patent in claim 2 covers devices which Mr. Giwosky did not design or consider to be part of his invention at the time his application was originally filed. Claim 2 of his patent is, therefore, invalid on the grounds that it introduces new matter and that no supplemental oath was filed. 35 U.S.C. sec. 132 provides, "No amendment shall introduce new matter into the disclosure of the invention." 35 U.S.C. sec. 115 sets forth the requirement that, "The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter or improvement thereof for which he solicits a patent."

Rule 1.67 of the Patent Office Rules of Practice requires a supplemental oath for matter not originally claimed in patent applications, as follows:

"When an applicant presents a claim for matter originally shown or described but not substantially embraced in the statement of invention or claim originally presented, he shall file a supplemental oath to the effect that the subject matter of the proposed amendment was part of his invention."

The Giwosky patent relates to a wall heater and economizer structure, such as this court has previously considered in the case of *Holly Manufacturing Co. v. The Coleman Co.*, No. 15,886-WM. As shown in red ink on the attached photostatic copy of the drawings of the Giwosky patent, Exhibit A to this memorandum, the Giwosky patent is directed to a structure having three stages of heat exchange. The first stage is a stream of air entering through the port 13 near the floor and discharged through the outlet grille 14 after circulating around the primary heat [169] exchanger of the wall heater. The second stage enters through the intake grille 20 at the top of the wall heater panel and is discharged through the economizer outlet grille 23 after circulating around a portion of the flue inside the economizer box. The third stage enters through the top of the economizer outlet grille at the portion designated 27 and is discharged to the attic or to the atmosphere after circulating around the upper portion of the flue.

The application for the Giwosky patent, both in its specification and its claims, as originally filed on October 1, 1953, was directed exclusively to the structure having the above-described three stages of heat exchange. Thereafter, in April of 1954, Holly Manufacturing Co. began the production and sale of its so-called second series of wall heaters, which are now charged to infringe the Giwosky patent. Holly's third series of wall heaters, which Coleman also contends infringe the Giwosky patent, were introduced in 1957.

In this action Coleman makes no claim that any of the Holly wall heaters infringe claim 1 of the patent as finally issued, since the claim is directed to a device having three stages of heat exchange and, admittedly, none of the Holly devices have a third stage of heat exchange which discharge air into the attic or to the atmosphere. (See defendant's answers to interrogatories and requests for admissions.) The Holly heaters have only two stages of heat exchange, the first being that of the stream of air which circulates around the primary heat exchanger in the lower box, and the second being that which circulates around the secondary heat exchanger or the flue within the secondary box.

After the Holly devices, now charged to infringe, appeared on the market in April, 1954, Coleman, by amendment to the Giwosky application, added claim 2 to the application to cover devices having only two stages of heat exchange. [170]

Throughout the prosecution of the Giwosky application for a patent in the Patent Office, one of the primary references asserted by the Patent Office as a bar to issuing a patent on the application was the patent to Hollingsworth et al., No. 2,602,441, which is owned by Holly and which was before this court in the case of Holly v. Coleman, No. 15,886-WM. In order to obtain a patent over the reference Hollingsworth, Coleman argued strenuously that the patentable distinction between Hollingsworth and Giwosky was the use of room air entering through the inlet grilles 20 of the Giwosky drawings at the top of the panel to sweep over the

barrier plate or top of the lower box 18 in order to maintain the top of the lower box at a relatively low temperature. As stated in the remarks to the amendment dated May 29, 1956, which appears in the attached file history of the Giwosky application:

“Neither the Hollingsworth or Bacon references can be taken as disclosing or suggesting the subject matter covered by claims 13, 19 and 20. The distinctive feature of applicant’s structure is nowhere to be found in these references. In applicant’s structure, the room air entering through inlets 20 or 21 sweeps over the upper surface of barrier plate 18 and over the lower end of the front wall section immediately above the barrier plate. Hollingsworth shows only a dead air space in this area, and the Bacon fireplace heater is obviously quite different.”

Again, in an amendment dated July 11, 1956, Coleman’s counsel argued:

“The Hollingsworth patent, which is the principal reference relied on by the Examiner, merely shows the admittedly old structure of a wall heater and economizer combination. There is a barrier plate near the top of the lower heater casing, and the lower heater casing provides a hood portion which extends above and over the forward portion [171] of the barrier plate. However, the casing hood portion is imperforate, and no provision is made for causing room air to flow over the upper surface of the forward portion of the barrier plate and into the lower portion of the economizer beneath the lower end of the front panel of the room wall.”

The specification and drawings of the Giwosky patent show that the device covered by the patent is a heater having three stages of heat exchange.

In place of the usual introduction to the specification, such as "a preferred form of my invention," the specification reads:

"The invention is shown, in an illustrative embodiment, by the accompanying drawing * * *" (Patent, Col. 1, lines 49, 50.)

The drawing shows a heater employing three stages of heat exchange. It does not show a heater employing two stages of heat exchange or air flow.

Likewise, the specification is directed only to a three-stage heater and it does not disclose or suggest a two-stage heater. For example, the specification points out:

"In the foregoing structure, it will be observed that in addition to the air heated by the primary wall heater, there are introduced into the wall interior or into the casing therein, at least two increments of cooling air." (Patent, Col. 2, lines 63 through 66.) (Emphasis added.)

The application as originally filed was directed solely to a wall heater having three stages of heat exchange. As Mr. Giwosky points out in his affidavit, which is attached hereto:

"My said application, as originally filed, was directed to a wall heater and economizer structure with three stages of heat exchange, one in the primary wall heater proper near the floor of the room and two along the flue above said wall heater."

Mr. Giwosky, prior to the time he developed

the device described and claimed in his original application for a patent, had attempted to design a device like that covered by claim 2 of his patent as finally issued. However, as Mr. Giwosky has pointed out in his affidavit, he was unable to develop such a device to the point where it would pass A.G.A. regulations. In addition, Mr. Giwosky states that the entire basis upon which Coleman obtained a patent—the use of room air to cool the barrier plate—is of no consequence.

By admission of Mr. Giwosky, the application was broadened after it was filed to include a device in claim 2 which he never considered as part of any invention he made. The broadening amendments to the application for the Giwosky patent were made in July, 1956, which was after Mr. Giwosky had left the employ of The Coleman Company, the assignee of the application. The prosecution of the application in the Patent Office was handled by patent counsel for The Coleman Company, who did not consult Mr. Giwosky at all about the prosecution of the application, and particularly did not consult him about the broadening amendment.

The device claimed in claim 2 of the patent as issued is therefore a material departure from the specification as originally filed. Under such circumstances, claim 2 is invalid for lack of a supplemental oath and for the further reason that it includes new matter; 35 U.S.C., Sec. 115.

In the case of *Chicago and Northwestern Railway Co. v. Sayles*, 97 U. S. 554, 563 (1878), the Supreme Court explained the reason for the prohibition

against enlarging claims after the original application has been filed. The Court stated:

“* * * The law does not permit such enlargements of an original specification, which would interfere with other inventors who have entered the field in the meantime, any more than it does in the case of re-issues of patents [173] previously granted. Courts should regard with jealousy and disfavor any attempts to enlarge the scope of an application once filed, or of a patent once granted, the effect of which would be to enable the patentee to appropriate other inventions made prior to such alteration, or to appropriate that which has, in the meantime, gone into public use.”

“Changes of language, not changing the substantial meaning as it stood before amendment, and even changes of meaning, narrowing the scope of invention described, do not infringe the statute.

“* * * if he only swears to a part, and his attorney puts in the rest, it is exactly like any other yielding to the temptation of improving an affidavit after execution * * *” *Westinghouse v. Metropolitan*, 290 F. 661, 664 (2d Cir. 1923).

“By section 4892 of the Revised Statutes the applicant is required to make oath that he believes himself to be the original inventor of the improvement for which he solicits a patent. Cody made such oath on making his original application, but did not make oath in respect to the matter brought in by the amendment. No doubt, it is competent to amend the specifications while the application is pending, so long as it is done within the scope of

the original application; but it is not competent, under color of this privilege, to introduce new matter." *Michigan Cent. R. Co. v. Consolidated Car-Heating Co.*, (6th Cir. 1895), 67 F. 121, 125.

Obviously, in view of the fact that Mr. Giwosky did not think a device like that claimed in claim 2 of the patent was an operable device, his original application cannot be construed to include such a device as part of his invention.

The material departure in claim 2 from the application as originally filed "required an oath that * * * (Giwosky would have found it impossible) to take, and for want of it the patent is void." *Steward v. American Lava Co.*, 215 U. S. 161, 168 (1909). [174]

II.

Claim 2 Was Added Long After the
Alleged Infringing Devices Appeared
on the Market and Is Therefore Void

Coleman alleges that the second and third series of wall heaters sold by plaintiff infringe claim 2 of the Giwosky patent. The second series was placed on the market in April, 1954, as set forth in the affidavit of Mr. Paul Hammond attached hereto. The third series was placed on the market in 1957. The claim which is claim 2 of the issued patent was first presented to the Patent Office in the amendment which was filed on July 11, 1956, as claim 21, which appears on pages 3 and 4 of the amendment. Thus, the only claim in issue was not presented to the Patent Office until more than two

years after plaintiff started selling the alleged infringing heaters.

The Giwosky patent, as originally filed in October, 1953, contained claims 1-6, all of which clearly required a third stage for circulation. The Holly heaters do not employ such a third stage and so were not covered by these claims.

In the amendment which Coleman filed in October, 1954, the prior claims 1-6 were canceled and new claims 7-11 were presented. Claims 7 and 8 of this amendment required a closure plate 26 positioned in the economizer below the ceiling of the room, as shown on the drawing for the Giwosky patent. The Holly heaters do not employ such a closure plate. (Defendant's answer to Interrogatory 28.) Hence these two claims do not read on the Hollingsworth design. Claims 9-11 of this amendment in the Giwosky application specify three stages of heat exchange and, therefore, do not read on the Hollingsworth, et al. design.

In an amendment dated November 14, 1955, Coleman canceled all of the claims in the application and substituted new claims 12-18. With reference to these new claims Coleman stated on page 12 of the amendment that "The newly added claims carefully define [175] the structural arrangement conceived of by applicant, and in so doing these claims recite a wall heater and economizer assembly wherein three distinct air flow patterns are present." (Emphasis added.)

Thus, in November of 1955, Coleman was urging allowance of claims which were directed only to

wall heaters employing three stages of heat exchange or air flow. Claim 18, which was presented in this amendment became claim 1 of the issued patent, and Coleman admits that claim 1 does not cover the Holly heaters.

In December, 1955, the Patent Office gave a final rejection to the Giwosky patent application, indicating, however, that the subject matter of claims 14 and 18 might be allowable if they were modified to more clearly define the invention. Claim 18 was so modified and it became claim 1 of the patent which is not in issue in this proceeding. Claim 14 was directed to the details of the inlet 20 shown on the Giwosky patent drawings, such as the inclined top wall 19 in which the inlet 20 is located and the vanes in the inlet air to the barrier plate 18. These matters are not in issue in the present proceedings.

On May 29, 1956, Coleman submitted a further amendment in the application, but the Patent Office found that that amendment did not place the application in condition for allowance. Thereafter, Coleman filed a notice of appeal and, on July 11, 1956, submitted an amendment, including claim 21, which became claim 2 of the issued patent.

Thus, the only claim which is in issue in this proceeding was not submitted until more than two years had elapsed since the first sale of plaintiff's wall heaters, which are alleged to infringe, and not until after the application had been given a final rejection and a notice of appeal had been filed. Coleman's prior claims were all of much more lim-

ited scope and clearly did not read on the Holly heaters. [176]

In the case of Webster Electric Company v. Splitdorf Electric Company, 264 U. S. 792, 793, the Supreme Court considered the validity of amended claims which enlarge the scope of claims originally filed after competitive devices had appeared on the market. The Court stated:

“* * * But, this aside, the evidence establishes to our satisfaction that Kane did not originally intend to assert these amended claims, because he considered their subject matter one merely of design, and not of invention; and the inference is fully warranted that the intention to do so was not entertained prior to 1918. During all of this time their subject matter was disclosed and in general use; and Kane and his assignee, so far as claims 7 and 8 are concerned, simply stood by and awaited developments.”

The Court went on to say, on page 794:

“* * * The subject matter of these claims is not of such character that it might not have been readily described in the original application or in one of the subsequent applications,—in 1915, for example,—as it was described in 1918; and the long delay of Kane and his assignee in coming to the point tends strongly to confirm the view that the final determination to do so was an exigent afterthought, rather than a logical development of the original application.”

The United States patent laws require that patents be applied for in the name of the person or

persons who made the invention, 35 U.S.C., Sec. 101. A corporation can acquire title to an invention only through the person or persons who made the invention. In the present case, Coleman acquired title to the application by assignment. Hence, Coleman acquired only the invention which Mr. Giwosky made. Mr. Giwosky has stated under oath that he did not invent the subject matter of claim 2 of the patent. [177] In fact, claim 2 was added by Coleman as "an exigent afterthought" long after the alleged infringing devices appeared on the market. Hence, claim 2 is invalid, and Coleman is not entitled to this claim.

III.

Coleman's Immaterial Variance From the Prior Art Is Not Patentable

Both this Court and the Court of Appeals have considered the inconsequential differences between the Coleman design and the wall heaters described and claimed in the Holly patent, No. 2,602,441, previously before this Court in the case of *Holly v. Coleman*, No. 15,886-WM.

The file wrapper of the Giwosky patent, particularly the amendment dated July 11, 1956, provides Coleman's reasons for its assertion that the Giwosky device is patentable over the patent to Hollingsworth, et al., No. 2,602,441. The purported patentable difference between Hollingsworth and claim 2 of Giwosky is the use of room air to cool the top of the lower box in the second stage of heating in Giwosky—the air that is warmed by cir-

culation through the second box or economizer. Giwosky merely added an air source for the economizer through the inlet grilles at the top of the panel on Coleman's production-model wall heaters which have been held to infringe the Hollingsworth patent. The Court of Appeals found that Coleman copied the Hollingsworth, et al. design with "immaterial variances." 233 F. 2d 71, 84.

Coleman, through its representatives, has admitted that the "immaterial variances" by which the Giwosky device differs from the Hollingsworth device are completely anticipated by the early patent and Browell. Coleman's Mr. Kice testified as follows:

"Now we have only been talking about fireplaces which are commonly thought of as made out of brick or stone. But back in 1882 Mr. Browell—the patent, we don't have the [178] number.

Mr. Lyon: Exhibit I.

The Witness: Exhibit I.—showed a ventilated flue stack, as I have illustrated here in green on the overlay, which was made out of metal; has an inlet opening at the intermediate height above the first box. And the air that is used to ventilate the flue and keep it cool is then discharged into the room and utilized for the sake of economy. That is the first economizer as it is used in the Coleman design." (R. 354-355.)

The design covered by Giwosky's patent differs from Coleman's production model wall heaters, since the production models utilize air from around the lower box and the design in the patent pro-

vides a structure in which air entering the bottom of the economizer "is entirely separate from the air heated by the wall heater." (Patent, Col. 2, lines 67, 68.) Such separation of the primary and secondary stages of heat exchange are shown by Browell. The lack of invention in claim 2 over the references Hollingsworth and Browell was made clear in colloquy between the Court and Mr. Lyon, counsel for Coleman:

"The Court: Upon what basis does the defendant claim an invention was taking in of air in the front?

Mr. Lyon: I do not know, your Honor. We haven't got a patent. Many manufacturers, as your Honor knows, will file an application to protect himself from having somebody filing on the same thing. Now, I don't know what the principle was that they filed on this. We didn't say we had a patent. In fact, I can state to this Court we don't.

The Court: I assume someone made an affidavit with respect to the patent.

Mr. Lyon: That he thought it was an invention at the time he drew it. But I can tell the Court right here and now that the application was rejected on the Browell patent, if you are [179] interested in that." (Transcript, p. 687, Jan. 24, 1955.)

Doubtless, Mr. Lyon must have considered the Browell patent to be most relevant on the issue of whether the Giwosky device represented patentable invention. Otherwise, as one of Coleman's patent counsel, he would have known the basis on which

Giwosky claimed an invention in the patent now before this court and would not have made the statement, “* * * the application was rejected on the Browell patent.”

Despite the importance of Browell attested to by Coleman’s Mr. Kice and Mr. Lyon, the file wrapper of the Giwosky patent shows that Browell was not cited as a reference against the Giwosky application. As this Court observed in a recent similar case:

“One reads the file wrapper and wonders upon what possible ground the letters in suit issued * * * over the prior art cited.” *Delco Chemicals, Inc. v. Cee-Bee Chemical Co.*, 157 F. Supp. 583, 590, (S. C. Cal., 1957).

A multo fortiori then, in view of the uncited prior art which Coleman admits to be an anticipation of its “immaterial variance” from the Hollingsworth patent, no “possible ground” exists for sustaining validity of the patent in suit. Plaintiff submits that the easy combination of the devices disclosed in the Hollingsworth and Browell patents fully anticipates the patent issued to Coleman. [180]

IV.

The Presumption of Validity Does Not Prevent Awarding Summary Judgment Against Coleman

This court has held:

“Since there is no rational basis upon which to rest it, the presumption of validity cannot extend beyond the scope of the administrative record—the

file wrapper of the patent as issued. So the presumption that a patent is valid, as embodying an invention over the prior art, does not subsist as to pertinent prior art not cited or considered by the Patent Office in passing on the application for the patent." *Delco Chemicals, Inc. v. Cee-Bee Chemical Co.*, 157 F. Supp. 583, 587.

Thus the presumption of validity over the references of record is not available as to the Browell patent, which admittedly is most pertinent.

An additional factor further destroys the presumption of validity in the case at bar; namely, misleading the Patent Office.

Mr. Giwosky in his affidavit filed with this memorandum unequivocally states that cooling the barrier plate or top of the lower box is of no significance in the wall heater structure he designed.

As he has pointed out in his affidavit:

"* * * The closure plate (barrier plate) 18 * * * is not in contact with combustible material and represents no fire hazard even if it is highly heated. Consequently, there is no need to construct or arrange the room air inlets 20, 21 which are located above this barrier plate to cause room air admitted through these inlet means to pass over any portion of this barrier plate in heat exchange relation therewith. Whether or not this room air is in heat exchange relationship with the barrier plate is of no consequence, and [181] I have never regarded that such heat exchange relation is a part of the invention for which I filed said application."

Yet in an attempt to distinguish the Giwosky

device over the Hollingsworth et al. patent, and in an endeavor to overcome the Final Rejection by the Patent Office dated December 21, 1955, counsel for Coleman relied upon this very feature as constituting the patentable distinction of the Giwosky device over the Hollingsworth et al. patent.

In an amendment filed July 11, 1956, Coleman represented to the Patent Office:

“The Hollingsworth patent, which is the principal reference relied on by the Examiner, merely shows the admittedly old structure of a wall heater and economizer combination. There is a barrier plate near the top of the lower heater casing, and the lower heater casing provides a hood portion which extends above and over the forward portion of the barrier plate. However, the casing hood portion is imperforate, and no provision is made for causing room air to flow over the upper surface of the forward portion of the barrier plate and into the lower portion of the economizer beneath the lower end of the front panel of the room wall.

“The portion of the room wall front panel immediately above the barrier plate has provided a serious problem of temperature control. Since wall heaters operate on a gravity flow, it is necessary to discharge the air at high temperatures, i.e. 250° to 350° C. This means that air at quite high temperatures heats the under surface of the barrier plate, which also receives heat from the flue that passes therethrough. Excessive heat would be likely

to be transmitted from the upper surface of the barrier plate to the lower end of the front room wall panel with the construction shown in the Hollingsworth patent. Code regulations enforced quite [182] generally throughout the United States specify that the room wall will not be heated at any point more than 90° F. above room temperature. Heating above the code limitation would be quite likely to occur with the Hollingsworth construction, while the problem is overcome with applicant's construction."

Thus, the assignee of Mr. Giwosky's patent application has misled the Patent Office as to the nature of the device designed by Mr. Giwosky. By Mr. Giwosky's own admission the feature which Coleman used to convince the Patent Office that a patent should be issued over the reference Hollingsworth Holly patent was a detail which Mr. Giwosky considered to be of no importance. In Coleman's amendment dated May 29, 1956, Coleman states with reference to the area just above the top of the lower box that Hollingsworth et al "shows only dead air space in this area," and in its amendment dated July 11, 1956, that "heating above the code limitation would be quite likely to occur with the Hollingsworth construction, while the problem is overcome with applicant's (i.e., Giwosky's) construction."

However, the area in question in the Hollingsworth et al device is in direct communication with and forms a part of the air passageway (designated

No. 41 in the Hollingsworth et al patent) around the secondary heat exchanger which, in turn, receives air from the space (designated No. 24 in Figs. 3 and 4 of the Hollingsworth et al patent) about the sides and the back of the lower box or primary heater. Hence, the Hollingsworth et al patent does not show only dead air space in this area as represented by Coleman in its endeavor to find a patentable distinction between the Giwosky design and the Hollingsworth et al design.

Also, the Hollingsworth et al design has been sold commercially since 1950 and approximately 300,000 heaters had been sold by plaintiff prior to the date on which Coleman made these [183] representations to the Patent Office, as shown by the record in *Holly Manufacturing Co. v. The Coleman Company*, No. 15,886-WM. Admittedly, the Hollingsworth et al design meets the A.G.A. requirements concerning room wall temperatures, otherwise the Hollingsworth et al heaters would not have been saleable. Coleman's representation that "Heating above the code limitation would be quite likely to occur with the Hollingsworth construction" is plainly incorrect.

Not long before Coleman represented to the Patent Office that cooling the top of the lower box would be a serious problem in the Hollingsworth et al heater, Coleman's Mr. Kice testified that the Hollingsworth et al heater took room air "up through the columns of the trim * * * into the

space above the lower box * * * into the secondary heat exchanger.” (R. 359.)

Thus, in addition to misleading the Patent Office as to the importance of the certain features of the device claimed in claim 2, Coleman represented that the Hollingsworth et al device had a dead air space above the barrier plate, where as a matter of fact it employs an arrangement which is the equivalent of the basis Coleman urged to obtain a patent over Hollingsworth et al.

In the case of *Floridin v. Attapulugus Clay Co.*, 35 F. Supp. 810, 814 (D. Del. 1940), affirmed 125 F. 2d 669 (3rd Cir. 1942), the court under the same circumstances held:

“It now appears from Fitzsimmons’ test sheets which he did not furnish to the Patent Office and also from his testimony in this case that the tests to which Fitzsimmons refers actually gave results exactly opposite to those stated by him in his affidavit.

* * * * *

“The presumption of validity of the Hartshorne patent is destroyed because the Patent Office was induced to allow the Hartshorne patent over the Ikeda patent by misrepresentations [184] regarding the process disclosed in the Ikeda patent.”

By such misrepresentations made to the Patent Office to obtain a patent, Coleman has destroyed all presumptions of validity of its patent, even as to references of record.

Conclusion

There is no genuine issue as to the following:

(1) Harry L. Giwosky did not invent the subject matter of claim 2.

(2) No supplemental oath was filed as to the subject matter of claim 2.

(3) Claim 2 broadened the scope of the original application to include new matter long after the devices now alleged to infringe claim 2 appeared on the market.

(4) Claim 2 is not patentable over pertinent prior art.

(5) No presumption of validity over the prior art exists as to claim 2.

This course should therefore summarily declare claim 2 invalid.

Dated this 28th day of March, 1958.

Respectfully submitted,

CHRISTIE, PARKER & HALE,
JAMES B. CHRISTIE,
C. RUSSELL HALE,
RICHARD B. HOEGH,
ASHLEY STEWART ORR,

/s/ By C. RUSSELL HALE,

/s/ RICHARD B. HOEGH,

Attorneys for Plaintiff. [185]

[Endorsed]: Filed March 31, 1958.

Oct. 23, 1956

H. L. GIWOSKY

2,767,702

WALL HEATER AND ECONOMIZER STRUCTURE

Filed Oct. 1, 1953

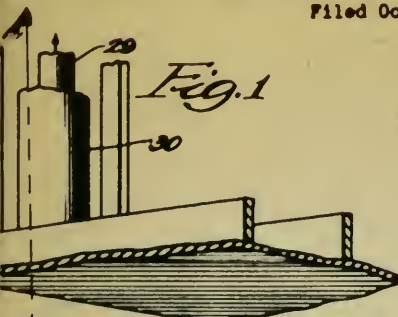
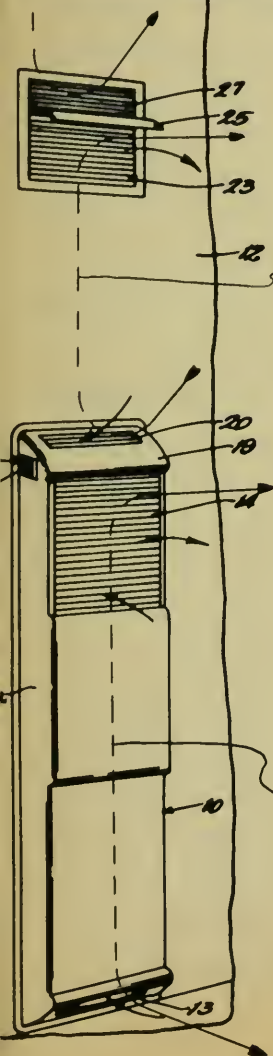


Fig. 1

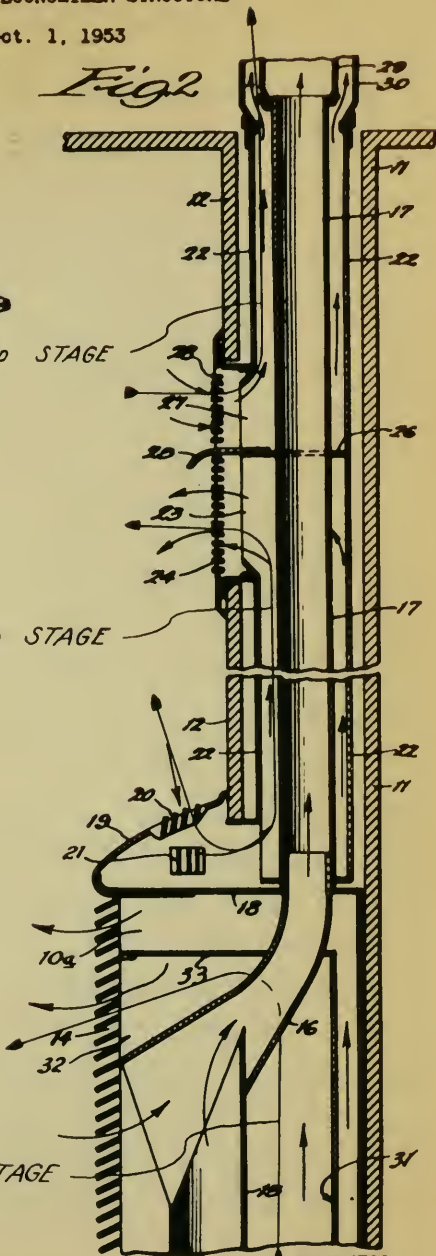


3RD STAGE

2ND STAGE

1ST STAGE

Fig. 2



INVENTOR:

Harry L. Giwosky,

BY

Dawson, Tiltner & Graham,
ATTORNEYS

[Title of District Court and Cause.]

MEMORANDUM IN OPPOSITION TO
MOTION FOR SUMMARY JUDGMENT

Plaintiff's motion for summary judgment is plainly improper on its face. The motion raises a plethora of triable issues which your Honor cannot be expected to decide without hearing all of the relevant evidence. In accordance with the local rule, however, Defendant has filed a full statement of the genuine factual issues raised by Plaintiff's involved assertions, but it is believed that there is no need to go into this matter in detail. As your Honor will immediately recognize, Plaintiff's motion raises complex questions concerning the scope and interpretation of the patent in suit and its relation to the prior art. On such matters the Court should have the benefit of testimony.

Plaintiff's motion purports to be supported by an affidavit of Defendant's former employee and the inventor of the patent in suit, Harry L. Giwosky. This affidavit is misleadingly incomplete and is couched in phraseology giving rise to completely false inferences. Mr. Giwosky has at Defendant's request executed a further affidavit, as submitted herewith, which directly rebuts the dubious assertions made in Plaintiff's Memorandum as allegedly supported by statements [194] in the first Giwosky affidavit.

Plaintiff's Memorandum, for example, opens with the blatant assertion that Harry L. Giwosky "has

stated under oath that he did not invent the subject matter of Claim 2" of his patent. Nothing could be further from the truth. Mr. Giwosky did not make such a statement in the affidavit filed by Plaintiff. The facts are as described in paragraphs 2-4 of Mr. Giwosky's second affidavit which was executed at Defendant's request. As stated in the concluding sentences of this portion of the second Giwosky affidavit:

"My patent 2,767,702 describes this means of cooling the upper end portion of the economizer, as well as the other cooling means at the lower end of the economizer previously described. To the best of my knowledge and belief I am the first and sole inventor of both of these cooling means as applied to economizer-equipped gas wall heaters, and there had been no public use or public disclosure in a printed publication of either of these cooling means more than one year before October 1, 1953, the filing date of my patent 2,767,702."

Plaintiff's Memorandum contains the further extravagant statement (p. 6):

"In addition, Mr. Giwosky states that the entire basis upon which Coleman obtained a patent—the use of room air to cool the barrier plate—is of no consequence."

This is like arguing that the act of turning off a radiator in a room is of "no consequence" since the object to be accomplished is to cool the room and not the radiator per se. Obviously, however,

the cooling of the radiator is the means to the desired end. As explained by Mr. Giwosky in his second affidavit:

“As stated in my patent application as originally filed, this room air ‘impinged upon the closure plate’, and would thereby necessarily be in heat exchange relation with said plate. The ultimate objective was to reduce the heat transferred to the adjacent wall members of the room in which the heater would be installed. In my opinion the room air inlet just described accomplished this objective.” [195]

The affidavit of Alwin B. Newton also submitted by Defendant further elucidates the matter:

“I further agree with Mr. Giwosky’s statement that the object of providing a room air inlet opening immediately above the closure plate was to correct the overheating in that area. There was no need, as indicated by Mr. Giwosky, to cool the closure plate as such. However, I am sure that Mr. Giwosky did not mean to convey any such erroneous idea as that the ‘impingement’ of the room air on the upper surface of the closure plate does not function as a means for reducing the temperatures at the lower end portion of the room wall. (The area identified by the Letter ‘A’). Obviously it does. Whenever a stream of cool air contacts a hot metal plate it is necessarily and inevitably in ‘heat exchange’ relation with the plate. Thus, the circulation of room air over the closure plate as illustrated and described in the Giwosky patent will

lower the temperature of the closure plate, thus in-turn reducing the amount of heat radiated to the surrounding room wall elements.”

Discussion of Motion

Basically, Plaintiff's motion involves two contentions. The first contention is that Claim 2 of the Giwosky patent is directed to a materially different invention from any subject matter that was disclosed in the original specification and/or covered by any of the initial claims. Plaintiff's second contention is the usual one that the Giwosky patent is invalid because of anticipation by an asserted combination of prior art patents. To decide either of these questions on a motion for summary judgment would require the Court to read and interpret the patent in suit, its file wrapper, and the prior art without the benefit of testimony. Such a procedure could be adopted only where: (1) the meaning of the patent specification, claims and prior art are so clear that they do not require elucidation by factual testimony, and (2) where there are no conflicting interpretations of the specification, claims or prior art. *Park-In Theatres v. Perkins* (C.A. 9, 1951), 190 F. 2d 137, 142. Clearly, that is not the present case. [196]

Alward v. Jordan Marsh Co. (D. Mass., 1953), 111 F. Supp. 758, is a case directly in point. In denying a motion for summary judgment on the same issue raised by Plaintiff herein the Court stated (p. 759):

“Defendant contends that the additions admit-

tedly made to Alward's application were substantial and material. Plaintiff argues that they were not. This is a material issue of fact on which the parties are in dispute." (emphasis added.)

The basis on which Siegler is attempting to attack Coleman's patent is in fact peculiarly inappropriate for determination on summary judgment. A patent applicant is given great latitude in amending his specification and claims. *Glade v. Walgreen Co.* (C.A. 7, 1941), 122 F. 2d 306, 311; *Coats Loaders & Stackers, Inc. v. Henderson* (C.A. 6, 1956, 233 F. 2d 915, 924; *Carson v. American Smelting & Refining Co.* (C.A. 9, 1925), 4 F. 2d 463, 470-471.

As held in the *Coats Loaders* case (p. 924):

"What occurred during the prosecution of the Henderson application was what often occurs in the course of extensive prosecution in the Patent Office: the claims of the application were substantially amended in order to clearly delineate the invention in relation to the prior art. The claims to the sub-combination finally allowed were so different from the combination originally advanced that the specification was amended to provide a more direct correspondence between the disclosure and the claims. We do not understand that *Muncie Gear* decision defeats the validity of claims finally issuing after such a Patent Office history, despite an intervening public use, so long as there was in the original application a full disclosure of the invention finally claimed, as we have found that there was here."

It is Coleman's position in the present suit that

Claim 2 of the Giwosky patent not only is adequately supported by the original specification, which is all that the foregoing cases require, but that additionally and even more conclusive is the fact that the invention covered by Claim 2 was at all times part of the subject matter to which claims were directed, both originally and throughout the prosecution of the Giwosky application. Stated otherwise, it is Defendant's position that the alleged departure from the Giwosky application [197] as originally filed, reduces to a mere quibble over terminology.

Plaintiff's contention that the Giwosky patent should be held invalid as anticipated by the Browell patent hardly deserves discussion on a motion for summary judgment. Plaintiff now says that the old Browell patent (No. 268,860 of 1882) in the fireplace art is relevant to the design of recessed gas wall heaters. It was not so very long ago, however, that the Court of Appeals for this Circuit affirmed your Honor's holding to the contrary, and at the urging of Plaintiff's predecessor in business, the Holly Company. *The Coleman Company, Inc. v. Holly Manufacturing Company* (C.A. 9, 1956), 233 F. 2d 71, 77, 83.

The attempted reliance of Plaintiff on its own Hollingsworth patent is likewise misplaced. The Patent Office expressly held that Giwosky had invented patentable improvements in economizer-equipped gas wall heaters over anything taught in the Hollingsworth patent. The fact that the Giwosky heater was held to infringe the Hollings-

worth patent is completely irrelevant to the present controversy. As set out more fully in the affidavit of Mr. Newton, Coleman contends that Holly redesigned its wall heaters after the introduction of the Giwosky heater by Coleman, and that the redesigned Holly heater included one of the improvements invented by Giwosky. Clearly, Holly's ownership of the Hollingsworth patent gave it no right to appropriate a later developed improvement of a competitor.

Respectfully submitted,

PARKER, STANBURY, REESE &
McGEE,

/s/ By RAYMOND G. STANBURY,
Attorneys for Defendant.

Of Counsel:

Timothy L. Tilton, Dawson, Tilton, Fallon &
Lungmus. John F. Eberhardt, Foulston, Sief-
kin, Schoeppel, Bartlett & Powers. [198]

Affidavit of Service by Mail Attached. [199]

[Endorsed]: Filed May 1, 1958.

[Title of District Court and Cause.]

AFFIDAVITS SUBMITTED BY DEFENDANT
IN OPPOSITION TO PLAINTIFF'S MO-
TION FOR SUMMARY JUDGMENT

The attached affidavits of Alwin B. Newton and Harry L. Giwosky are being submitted by Defendant-Counterclaimant in opposition to Plaintiff's

motion for summary judgment pursuant to Federal Rule 56.

The affidavit of Mr. Newton establishes the real and substantial nature of the controversy herein where the basic issue is whether Plaintiff has appropriated the inventive subject matter of Claim 2 of the Giwosky patent. This affidavit also directly controverts Plaintiff's interpretation, or rather misinterpretation, of the Giwosky patent and file wrapper.

The Giwosky affidavit supplements and clarifies his prior affidavit that was executed at Plaintiff's request. When the first and second Giwosky affidavits are read together it is clear that there is no basis for Plaintiff's assertion that Giwosky did not invent the subject matter of Claim 2 of his patent. Mr. Giwosky's second affidavit also establishes that Plaintiff's contention with regard to the phrase "heat exchange relation" is a mere quibble [201] over a minor point of terminology.

Respectfully submitted,

PARKER, STANBURY, REESE &
McGEE,

/s/ By RAYMOND G. STANBURY,
Attorneys for Defendant,

Of Counsel:

Timothy L. Tilton, Dawson, Tilton, Fallon &
Lungmus. John F. Eberhardt, Foulston, Sief-
kin, Schoepfel, Bartlett & Powers. [202]

AFFIDAVIT OF ALWIN B. NEWTON

State of Illinois,
County of Cook—ss.

Alwin B. Newton, being duly sworn, deposes and states as follows:

1. I am Vice President in charge of design and research for The Coleman Company, the defendant and counterclaimant in the above-identified suit. I hold bachelor's and master's degrees in mechanical engineering, respectively from Syracuse University and from Massachusetts Institute of Technology. I have had rather extensive industrial experience with heating, ventilating, and air conditioning equipment. Since I came to The Coleman Company in 1953, I have been directly concerned with the design, operation, and manufacture of gas wall heaters. [203]

2. I am familiar with Giwosky patent 2,767,702 and with the wall heaters which The Coleman Company formerly manufactured in accordance with this patent. Before the inventor of that heater, Mr. Giwosky, left The Coleman Company to accept employment elsewhere, I had the opportunity on a number of occasions of discussing with Mr. Giwosky the design and experimental work which resulted in the wall heater described in his patent 2,767,702. This patent was assigned by Mr. Giwosky to The Coleman Company while he was in its employment, and the inventions described in said patent are the property of The Coleman Company.

3. In 1954 the Holly Manufacturing Company introduced a new line of gas wall heaters, which in my opinion included a feature that to my knowledge had previously been offered commercially only on the line of wall heaters which The Coleman Company began selling late in 1952. Holly had a line of wall heaters on the market during the years 1952 and 1953, but the wall heaters it was selling in those years did not provide a room air inlet on the front of the heater immediately above the closure plate for the lower heater box. The line of heaters which Holly introduced in 1954, however, did provide such an opening.

4. Exhibit A attached hereto is a photograph of the front of a Holly wall heater Model 350S. The heater as shown is complete, including both the lower heater and the economizer, but the louvered grill member has been removed from the top of the outer case. As indicated on Exhibit A there is an opening "O" immediately above the closure plate "P" which is approximately 11½ inches high and 12 inches long. This is the opening previously referred to which was provided on the new line of heaters introduced by Holly in 1954. The model shown in Exhibit A is a 35,000 BTU single outlet unit, which is the capacity and type of heater that was stipulated to be representative [204] in the suit between Holly and Coleman involving Hollingsworth patent 2,602,441.

5. To my knowledge Holly (now a part of The Siegler Corporation) continued to offer for sale the

line of wall heaters represented by the model of Exhibit A until sometime during the early part of 1957. At that time, Holly, or rather The Siegler Corporation introduced a third new line of wall heaters. This third line of wall heaters still had the opening above the closure plate, notwithstanding the fact that Holly was notified in December, 1956 that this opening was claimed by Coleman to infringe the Giwosky patent. Exhibit B attached hereto is a photograph showing the front with the louvered grill removed of the 35,000 BTU single outlet model, (identified as "35S") of this new line. It will be observed that the opening "O" above closure plate "P" still has a width of approximately 12 inches and a height of about $11\frac{1}{4}$ inches.

6. I have studied the operation of the Holly heaters as illustrated by the models of Exhibits A and B. It is my opinion that in the Holly heaters enough room air enters the opening "O" above closure plate "P" to appreciably reduce room wall temperatures in this area, as described in Giwosky patent 2,767,702.

7. The Holly heaters, as represented by Exhibits A and B, do not include the additional cooling means consisting of a third heat exchange stage as also described in the Giwosky patent. This is in itself a clear demonstration that the feature described in the Giwosky patent of circulating room air over the closure plate of the lower heater box is capable of use independent of the third heat exchange stage. As described to me by Mr. Giwosky

on a number of occasions, this particular room air inlet feature was designed to solve the problem of overheating in the room wall areas immediately [205] above the closure plate, and therefore could advantageously be incorporated in any economizer-equipped wall heater where this problem presented itself.

8. During the accounting trial in the suit involving the Hollingsworth patent 2,602,441 (Holly Manufacturing Company v. The Coleman Company, Inc., No. 15,886-WM Civil), I testified about how the infringing Coleman heaters could have been redesigned to completely eliminate the passage of air from the lower wall space over the closure plate and into the economizer inlet. (Accounting Tr. 974-975, 977-983.) I further presented in that proceeding an overlay drawing illustrating one way in which this might have been done. (Accounting Exhibit BB.) Since the conclusion of the accounting trial I have built and tested experimentally a heater operating like that shown in the accounting trial Exhibit BB. My tests again confirmed that the wall temperatures in the area above the closure plate were improved (that is reduced) by the complete exclusion of lower wall space air from the economizer. This finding confirms the utility of the Giwosky direct room air inlet principle whereby the economizer is supplied with room air rather than with lower wall space air. An important aspect of the Giwosky principle from an engineering standpoint is that the cool room air contacts the upper surface of the closure plate thereby reducing

the temperature of this plate which in turn reduces the amount of heat radiated to the adjacent room wall areas.

9. I have read the affidavit of Harry L. Giwosky which has been filed by the Plaintiff Siegler. I am in complete agreement with Mr. Giwosky's statement that one of the principal areas where overheating occurs in gas wall heaters is that marked "A" on the patent drawing attached to Mr. Giwosky's affidavit. I further agree with Mr. Giwosky's statement that the object of providing a room air [206] inlet opening immediately above the closure plate was to correct the overheating in that area. There was no need, as indicated by Mr. Giwosky, to cool the closure plate as such. However, I am sure that Mr. Giwosky did not mean to convey any such erroneous idea as that the "impingement" of the room air on the upper surface of the closure plate does not function as a means for reducing the temperatures at the lower end portion of the room wall. (The area identified by the letter "A"). Obviously it does. Whenever a stream of cool air contacts a hot metal plate it is necessarily and inevitably in "heat exchange" relation with the plate. Thus, the circulation of room air over the closure plate as illustrated and described in the Giwosky patent will lower the temperature of the closure plate, thus in-turn reducing the amount of heat radiated to the surrounding room wall elements.

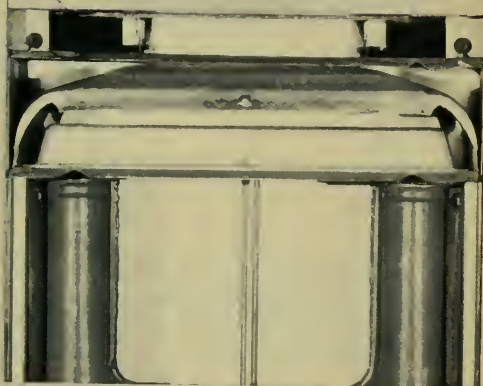
10. I have read Claim 2 of the Giwosky patent

and considered the language of this claim in relation to the operation of the heater described in that patent. It is my opinion that Claim 2 constitutes an accurate and complete description of what occurs when room air is circulated over the closure plate and beneath the lower end portion of the room wall. The "room air inlet means" as recited in Claim 2 refers to the inlets 20, 21 of the patent drawing. This "room air inlet means", as further recited in Claim 2, is "constructed and arranged to cause room air to pass over the upper surface of said barrier plate forward portion (the closure plate 18) in heat exchange relation therewith." Furthermore, Claim 2 is complete even though it does not require the third heat exchange stage. Either of the direct room air cooling means of the Giwosky patent are capable of separate use. A heating engineer reading this patent would recognize, for example, that the feature of having cool room air circulate over the top of the closure plate 18 solved a separate problem than the other cooling feature.

/s/ ALWIN B. NEWTON.

Subscribed and sworn to before me this 15th day of April, 1958.

[Seal] /s/ GENEVIEVE M. PRATT,
Notary Public. [208]



MID-CONTINENT ENGRAVING COMPANY

HOLLY
350 S

#1555

Exhibit 1

AFFIDAVIT OF HARRY L. GIWOSKY

State of Wisconsin,
County of Milwaukee—ss.

Harry L. Giwosky, being duly sworn, deposes and states as follows:

1. I am the Harry L. Giwosky who previously signed an affidavit at the request of the Siegler Corporation in connection with a lawsuit involving my patent 2,767,702, which I had assigned to the Coleman Company. At the request of the Coleman Company I am now supplementing my prior affidavit.

2. The Holly wall heaters that I had examined prior to October 1, 1953, the date on which I made application for my patent 2,767,702, were equipped with secondary heat exchangers or economizers receiving their air supply from the wall space around the lower heater box, as described in Hollingsworth et al patent 2,602,441, with which I am familiar. There was no opening in the Holly heaters for the direct admission of room air to either the lower portion or the upper portion of the economizers.

3. During the design and experimental work leading to the wall heater described in my patent 2,767,702, I first encountered a problem of overheating in the area immediately above the closure plate of the primary heater box. To overcome this problem I provided an opening in the heater just above this closure plate through which cool room air could circulate. As stated in my patent appli-

cation as originally filed, this room air "impinged upon the closure plate", and would thereby necessarily be in heat exchange relation with said plate. The ultimate objective was to reduce the heat transferred to the adjacent wall members of the room in which [211] the heater would be installed. In my opinion the room air inlet just described accomplished this objective.

4. At a later time, I encounter another problem of overheating. This occurred in the wall area around the upper end portion of the economizer. This difficulty was corrected by providing a third heat exchange stage whereby a separate increment of cool room air was passed around the flue at the upper end of the economizer. My patent 2,767,702 describes this means of cooling the upper end portion of the economizer, as well as the other cooling means at the lower end of the economizer previously described. To the best of my knowledge and belief I am the first and sole inventor of both of these cooling means as applied to economizer-equipped gas wall heaters, and there had been no public use or public disclosure in a printed publication of either of these cooling means more than one year before October 1, 1953, the filing date of my patent 2,767,702.

5. The heater which was approved by AGA and which Coleman manufactured and sold commercially starting in late 1952 had both of the cooling means previously described. This Coleman heater therefore differed in these two important respects

from the Holly heater as sold up to that time. In my opinion, however, the wall temperatures in front of the economizer of the Holly heaters would have been improved by incorporating in the Holly heaters one or both of the cooling means described in my patent 2,767,702. If there was a need for reducing the front wall temperatures in the area immediately above the closure plate of the primary heater, then it would be desirable to provide for the circulation of cool room air beneath the lower end of the room wall and over the upper surface of the closure plate as described in my patent. This could be done independently of the passing of room air around [212] the flue in the upper portion of the economizer, as also described in my patent. I preferred to employ these two cooling means jointly but this does not mean that they were incapable of separate use.

/s/ HARRY L. GIWOSKY.

On this 14th of April, 1958, before me a notary public of the State and in the county aforesaid appeared Harry L. Giwosky, personally known to me, and made the foregoing statement of paragraphs 1 to 5 inclusive upon oath and as his free and voluntary act.

[Seal] /s/ G. R. FLYNN,

Notary Public. 3/12/1961 [213]

Affidavit of Service by Mail Attached. [214]

[Endorsed]: Filed May 1, 1958.

[Title of District Court and Cause.]

STATEMENT OF GENUINE ISSUES

Now comes Defendant-Counterclaimant, The Coleman Company, and states that Plaintiff's motion for summary judgment is not well founded as to any of the four grounds asserted by Plaintiff because genuine, material, and triable issues of fact exist as to each of said grounds, as more particularly specified below.

First Ground

(1) Did Harry L. Giwosky invent the subject matter of Claim 2 of Patent No. 2,767,702?

(2) Was the subject matter of Claim 2 of Patent 2,767,702 described in the specification of the application for said patent as originally filed?

(3) Was Claim 3 of the Giwosky application as originally filed directed to substantially the same invention as Claim 2 of the issued patent? [216]

(4) Was there at all times from the date of original filing to the date of issuance of the Giwosky patent at least one claim before the Patent Office directed to substantially the inventive subject matter of Claim 2 of the issued patent?

(5) Is Claim 1 of the Giwosky patent directed to a different invention from Claim 2 of the same patent?

(6) What bearing, if any, do American Gas Association Regulations have on the question of what

claims may be properly presented in a patent application?

(7) Were any amendments made to the specification and/or claims of the Giwosky patent application which represent "new matter" and thereby constitute a departure from the specification and claims of said application as originally filed?

(8) Does Claim 2 of the Giwosky patent depend on any "new matter" that was introduced into the specification by amendment?

(9) Is the statement in Claim 2 of the Giwosky patent that the room air is in "heat exchange relation" with the barrier plate a mere variation in language from the specification as originally filed, which stated that the cool room air "impinged upon" this barrier plate?

(10) Is it not inherent that whenever cool air is brought in contact with a hot metal plate it is in "heat exchange relation" with the plate?

(11) Can the Giwosky room air cooling means as covered broadly by Claim 2 of Patent 2,767,702 be used independently of a third heat exchange stage?

(12) Does the Giwosky room air cooling means for economizer-equipped wall heaters have utility in 2-stage as well as 3-stage wall heaters?

Second Ground

The foregoing factual issues are all material to the Plaintiff's second ground for summary judgment, and are therefore incorporated hereunder by

reference. The Court's attention is particularly directed to issues 2-4 and 7-9 as previously stated. One particularly important triable issue hereunder may be summarized as follows: [217]

(13) Is Claim 2 of the Giwosky patent directed to inventive subject matter which is supported by the Giwosky application as originally filed?

Third Ground

(14) Is Claim 2 of the Giwosky patent valid over the prior art?

(15) Does the fact that Coleman's commercial wall heaters constructed in accordance with the Giwosky patent were held to infringe Hollingsworth Patent No. 2,602,441 have any bearing on the question of whether the Giwosky patent covers patentable improvements over the Hollingsworth design?

(16) Does Browell Patent No. 268,860 anticipate the invention covered by Claim 2 of the Giwosky patent?

(17) Can the Browell patent be combined with the Hollingsworth patent to invalidate Claim 2 of the Giwosky patent?

Fourth Ground

(18) Did the United States Patent Office overlook the most pertinent prior art in its examination of the Giwosky application?

(19) Is the Browell Patent No. 268,860 merely

cumulative with other patents officially cited against the Giwosky application by the Patent Office?

(20) Was the Patent Office misled by any untrue representations during the prosecution of the Giwosky application?

Respectfully submitted,

PARKER, STANBURY, REESE
& McGEE,

/s/ By RAYMOND G. STANBURY,
Attorneys for Defendant.

Of Counsel: Timothy L. Tilton, Dawson, Tilton,
Fallon & Lungmus. John F. Eberhardt, Foul-
ston, Siefkin, Schoeppel, Bartlett & Powers.

Certification

I, Raymond G. Stanbury, as attorney for Defendant-Counterclaimant in the above-captioned action hereby certify that the foregoing "Statement of Genuine Issues" has been made in good faith and not for purposes of delay, and that in my opinion material disputed and triable issues exist between the parties hereto as to each of the four grounds asserted by Plaintiff in its motion for summary judgment.

/s/ RAYMOND G. STANBURY. [219]

Affidavit of Service by Mail Attached. [220]

[Endorsed]: Filed May 1, 1958.

[Title of District Court and Cause.]

REPLY TO DEFENDANT'S MEMORANDUM
IN OPPOSITION TO PLAINTIFF'S MO-
TION FOR SUMMARY JUDGMENT

Plaintiff has brought the present Motion for Summary Judgment in order to eliminate the time and expense involved in needlessly trying the issue of infringement of Coleman's Giwosky Patent No. 2,767,702, for it is clear from the uncontroverted evidence of record that Claim 2 of this patent is invalid and unenforceable.

Defendant alleges that the present Motion for Summary Judgment is improper because there are triable issues of fact on which this Court should have the benefit of testimony. It is well established that a Motion for Summary Judgment is proper if it merely requires the application of legal standards to facts which are adequately presented to the Court in the form of affidavits, issued patents or documents. *Park-in Theatres, Inc. v. Perkins* (9th Cir., 1951) 190 F. 2d 137; *Delco Chemicals v. Cee-Bee Chemical [221] Co.*, 157 F. Supp. 583 (S.D. Cal., 1957).

The present Motion may be resolved on the basis of the file history of Coleman's Giwosky patent, the two affidavits of Mr. Giwosky, and the patents to Hollingsworth et al. and Browell, all of which are already of record. The matters set forth in these documents are not complex, and any factual matters can be determined merely by inspecting the docu-

ments. The present Motion can be resolved on any one of several grounds without raising any material issues.

Neither Coleman nor Siegler (nor its predecessor, Holly) has manufactured or sold wall heaters in accordance with the structure shown in Coleman's Giwosky patent. It is merely a paper patent which has not served to advance science or industry, and hence it is of little significance.

The Giwosky patent purports to cover wall heaters employing a primary heater located in a lower box and a secondary heat exchanger or economizer disposed about the flue above the lower box, wherein all of the air for the secondary heat exchanger or economizer is admitted from the room through an opening located above the lower box about midway along the heater structure. This Court and the Court of Appeals have found that wall heaters which Coleman manufactured and sold during the years 1952 to 1957 took air for the secondary heat exchanger or economizer from the space about the lower box, and hence infringed the Hollingsworth et al. patent owned by plaintiff. *Holly v. Coleman*, No. 15,886-WM. These wall heaters did not obtain all the air for the secondary heat exchanger or economizer through the opening at the top of the lower box in accordance with the disclosure of Coleman's Giwosky patent. Instead, the wall heaters obtained a substantial portion of this air from the space about the sides and back of the lower box in accordance with the disclosure of plaintiff's Hollingsworth et al. patent. [222]

When Coleman was forced to discontinue the manufacture and sale of the infringing heaters by a final injunction it did not go over to the wall heater design which is shown in its Giwosky patent, but rather it went to a design which does not employ any secondary heat exchanger or economizer.

In an affidavit submitted in support of defendant's opposition to the present Motion, Mr. Newton states that since the conclusion of the accounting trial in the other action he has built and tested experimentally a wall heater following the design of the Giwosky patent in which the air flow about the lower box is completely excluded from the economizer. If the wall heaters which were the subject of Mr. Newton's ex parte tests do in fact exclude this air, it is, so far as the evidence in the two lawsuits in question is concerned, the very first wall heater to be constructed in accordance with the design of the Giwosky patent. Any such tests have only philosophical significance in this action and have no legal significance in the earlier Case No. 15,886-WM, since they were not conducted prior to Coleman's infringement.

In an endeavor to raise an issue of fact, Mr. Newton in his affidavit submitted two pictures of wall heaters manufactured by plaintiff showing openings designated "O" which he alleges constitute infringement of Coleman's Giwosky patent. Plaintiff's heaters do have such openings, because it is more economical to construct the wall heaters that way. (See Hollingsworth deposition.) However, there is a marked difference in the function of these openings

in plaintiff's wall heaters and in the wall heaters of the Giwosky patent. Coleman's Giwosky patent requires that air enter this opening to provide the air for the secondary heat exchanger or upper portion of the wall heater. In plaintiff's wall heaters air comes out of this opening rather than going into it. (Hollingsworth deposition.) The air which comes out of this opening in plaintiff's wall heaters is a portion of the air which passes [223] through the space about the sides and back of the lower box. In other words, plaintiff's heater still obtains the air for the secondary heat exchanger from the space about the sides and back of the lower box in accordance with the disclosure in plaintiff's Hollingsworth et al. patent, and plaintiff's heaters do not obtain the air for the secondary heat exchanger through the opening designated "O" in Mr. Newton's photographs.

These matters raised by Mr. Newton's affidavit are directly concerned with the issue of infringement which is a triable issue of fact, and which is not in issue in the present Motion. These matters are discussed briefly here in order to provide proper background for consideration of the issues of law which are directly before this Court on plaintiff's Motion for Summary Judgment.

Defendant alleges that there are numerous triable issues of fact as to each of the grounds asserted in plaintiff's Motion for Summary Judgment. Most of the issues can be resolved merely by reading the documents of record. The remaining alleged issues are not material with respect to the issues raised by

the Motion for Summary Judgment. The alleged issues are discussed below under the respective grounds asserted by plaintiff.

I.

The Named Inventor Was Not the Inventor Nor the First Inventor of the Device Claimed in Claim 2

(1) Did Harry L. Giwosky invent the subject matter of Claim 2 of Patent No. 2,767,702?

This matter may be ascertained by reading the file history of the Giwosky patent and Mr. Giwosky's two affidavits of record

Claim 2 purports to cover a wall heater employing only two stages of heat exchange. The specification and claims of the Giwosky patent application, as originally filed, described and claimed wall heaters employing three stages. The specification or [224] drawings did not disclose or suggest the possibility of using only two stages, and they did not show how the third stage could be omitted. It is well established that the elimination of one element in a combination claim makes the claim for a new and different invention. *Muncie Gear v. Outboard Steel Company*, 315 U.S. 759 (1942); *Milcor Steel Company v. Fuller Company*, 316 U.S. 143 (1942).

Moreover, Mr. Giwosky stated in paragraph 5 of his affidavit which was submitted with plaintiff's motion, that he built and tested a wall heater and economizer structure that lacked the third stage of heat exchange, and found that such a wall heater was unsatisfactory because of overheating in the

upper part of the economizer. Mr. Giwosky went on to point out in paragraph 10 of his affidavit that Claim 2 of the patent makes no reference to the third stage which he had found to be essential to the proper operation of the device to which the patent is directed.

Clearly, any invention which Mr. Giwosky made must include all of the elements which he found to be essential to the proper operation of the device. He found the third stage to be essential, and hence, Claim 2 which omits one essential element is not part of Mr. Giwosky's invention.

In a subsequent affidavit by Mr. Giwosky which is submitted with defendant's Opposition to the present motion, Mr. Giwosky does not contradict his previous statement. His later affidavit merely states in paragraph 5 that he "preferred to employ these two cooling means" for the secondary heat exchanger "jointly" (i.e., three stages of heat exchange including the stage through the primary heater or lower box), but that this does not mean that the two cooling means were "incapable of separate use." In other words, Mr. Giwosky's affidavits state that his invention was a three-stage wall heater and that portions of his wall heater might [225] be capable of use in devices other than the invention covered by his patent.

Possibly the two cooling means are capable of separate use, but the Giwosky patent does not show how they could be used separately, and Mr. Giwosky found both the so-called cooling means or stages of heat transfer in the secondary heat exchanger to be

essential to the proper operation of the wall heater, as set forth in paragraph 10 of his first affidavit. Clearly, any invention which Mr. Giwosky made must include all the stages which he found to be essential to the proper operation of the device. His patent cannot be enlarged by the assignee years later to encompass a different combination which does not include all of the elements which Mr. Giwosky found to be essential to the proper operation of the device.

(2) Was the subject matter of Claim 2 of Patent 2,767,702 described in the specification of the application for said patent as originally filed?

This matter may be ascertained by reading the specification of the application, as originally filed, a certified copy of which was submitted with plaintiff's motion papers.

In the third paragraph of the specification, it is stated, "A still further object is to provide a structure in which a plurality of cooling streams are employed in connection with the flue, the streams being introduced at the points where the greatest danger of overheating was present."

Clearly, this statement requires at least two cooling streams or stages of heat exchange along the flue in addition to the first stage of heat exchange in the primary heater or lower box. Thus the original application was directed to three stages of heat exchange.

In an endeavor to broaden the original application, Coleman amended this statement on July 11, 1956, nearly three years after [226] the application

was filed. The amended statement reads as follows, the underlined portion showing the amendment: "A still further object is to provide a structure in which one or a plurality of cooling streams are employed in connection with the flue, the streams being introduced at the points where the greatest danger of overheating is present."

Even if this change in the wording of the application were proper, it would still fail to enlarge the scope of the application so as to cover a flue employing only one cooling stream because the application does not show how a wall heater could be constructed employing only one cooling stream in connection with the flue.

The description of the operation of the device further emphasizes the fact that the Giwosky patent is directed to a wall heater having three stages of heat exchange. The description states, "In the foregoing structure it will be observed that in addition to the air heated by the primary wall heater, there are introduced into the wall interior or into the casing 22 therein, at least two increments of cooling air." (Patent, Col. 2, lines 63-66.)

Clearly, the specification describes the structure and operation of a device employing two stages of heat exchange in addition to the stage where air is heated by the primary heater. The specification does not describe how such a wall heater could be modified to operate with only one stage of heat interchange in addition to the stage in the primary heater.

(3) Was Claim 3 of the Giwosky application as

originally filed directed to substantially the same invention as Claim 2 of the issued patent?

This matter may be ascertained by reading the two claims.

Claim 3 of the Giwosky application as originally filed reads as follows:

“In a wall heater structure equipped with a flue [227] extending upwardly between the panels of a wall, a casing about said flue, an inlet for said casing near the lower portion of said flue, a barrier extending across said casing at an intermediate point of said flue, an opening below said barrier for discharging heated air, and an opening in said casing above said barrier for admitting cool air about said flue.”

This claim requires an inlet near the lower portion of the flue, which is the inlet which communicates with the inlet 20 of the patent drawings for admitting the second-stage air to the lower portion of the secondary heat exchanger or economizer. The claim also requires a barrier extending across the economizer structure with an opening for discharging heated air. This is the opening 23 which discharges the second stage air. The claim further requires an opening above the barrier for admitting cool air to the flue. This is the opening 27 of the patent drawings which admits air to the third stage of heat interchange.

Thus, Claim 3 of the Giwosky application as originally filed requires the second and third stages of heat interchange along the flue in conjunction with the primary heater or first stage to which the flue is

coupled. Claim 2 of the issued patent requires only the first and second stages of heat interchange.

A claim which is directed primarily to the second and third stages of heat interchange is different from a claim which is directed only to the first and second stages of heat interchange. Coleman's allegation in its statement of genuine issues that this raises a triable issue of fact is obviously a sham.

(4) Was there at all times from the date of original filing to the date of issuance of the Giwosky patent at least one claim before the Patent Office directed to substantially the inventive subject matter of Claim 2 of the issued patent? [228]

This matter may be ascertained by reading the claims which appear in the file history of the Giwosky patent, and may be answered with an unequivocal no! For example, all of the original claims required the third stage of heat exchange which is not required by Claim 2. The portions of these claims which are directed to the third stage are as follows:

Claims 1 and 2—"and means for introducing additional cooling air about the upper portion of the flue"

Claim 3—"and an opening in said casing above said barrier for admitting cool air about said flue,"

Claims 4 and 5—"and an inlet above said barrier to admit cool air into the casing about said flue,"

Claim 6—"said casing being provided with * * * and with an inlet above said barrier."

(5) Is Claim 1 of the Giwosky patent directed to

a different invention from Claim 2 of the same patent?

This matter may be ascertained by reading the two claims in question.

Claim 1 of the Giwosky patent requires three stages of heat exchange and claim 2 of the Giwosky patent requires only the first two stages.

(6) What bearing, if any, do American Gas Association regulations have on the question of what claims may be properly presented in a patent application?

This matter is easy to resolve and it has little or no significance with respect to the issues of the present motion.

The American Gas Association regulations merely establish minimum requirements for appliances, such as wall heaters, so as to protect the ultimate users of the device. Obviously the American Gas Association regulations as such have no bearing on the question of what claims may properly be presented in a patent application. The American Gas Association regulations may be of significance [229] with respect to an inventor's opinion as to what constitutes a device which operates satisfactorily, because a gas appliance must meet the requirements of these regulations before it can be sold on a commercial basis in practically all of the cities and towns of the United States.

(7) Were any amendments made to the specification and/or claims of the Giwosky patent application which represent "new matter" and thereby

constitute a departure from the specification and claims of said application as originally filed?

This matter may be ascertained from an inspection of the file history of the Giwosky patent.

As discussed above, the original application was directed to a wall heater employing three stages. In an amendment filed on July 11, 1956, about three years after the original application was filed, both the specification and one claim were broadened in an endeavor to encompass a wall heater employing two stages of heat exchange as distinguished from a wall heater employing three stages of heat exchange. Clearly, this is a departure from the original specification and claims.

(8) Does Claim 2 of the Giwosky patent depend on any "new matter" that was introduced into the specification by amendment?

This matter may be ascertained from an inspection of the file history of the Giwosky patent.

Claim 2 was first introduced on July 11, 1956, and the specification was amended at that time to state that one or a plurality of cooling streams may be employed in connection with the flue, whereas previously the specification had stated that a plurality of cooling streams are employed.

(9) Is the statement in Claim 2 of the Giwosky patent that the room air is in "heat exchange relation" with the [230] barrier plate a mere variation in language from the specification as originally filed, which stated that the cool room air "impinged upon" this barrier plate?

(10) Is it not inherent that whenever cool air is

brought in contact with a hot metal plate it is in "heat exchange relation" with the plate?

These matters are of little or no importance with respect to grounds I and II of the present motion. They are primarily concerned with whether or not Coleman misrepresented the importance of certain features of the Giwosky patent in order to obtain allowance of Claim 2, as discussed in more detail in ground IV of the present motion.

(11) Can the Giwosky room air cooling means as covered broadly by Claim 2 of Patent 2,767,702 be used independently of a third heat exchange stage?

(12) Does the Giwosky room air cooling means for economizer-equipped wall heaters have utility in 2-stage as well as 3-stage wall heaters?

These matters, apart from what the patent actually teaches, are not material with respect to any of the grounds of invalidity asserted in plaintiff's motion.

The patent does not teach how the first two stages of heat exchange of the Giwosky patent may be employed independently of the third stage. Claim 2 of the patent purportedly covers such a two-stage wall heater, but it is not supported by the patent disclosure and it was not a part of the device to which the original patent application was directed. Hence, it is immaterial whether or not it can be established at this late date that one of the stages of the three-stage heater which is disclosed in the Giwosky patent may be eliminated. [231]

II.

Claim 2 Was Added Long After the Alleged In-

fringing Devices Appeared on the Market and Is Therefore Void.

There is no genuine issue as to the following facts:

1. Claim 2 is the only claim of the Giwosky patent allegedly infringed by the plaintiff.

2. Claim 2 was presented in an amendment broadening the original application nearly three years after the application was originally filed and more than two years after the alleged infringing devices appeared on the market.

On the basis of the foregoing uncontroverted facts summary judgment should be granted because Coleman presented claim 2 of the Giwosky patent to the Patent Office more than two years after plaintiff started selling the alleged infringing heaters. *Webster Electric Co. v. Splitdorf Electrical Co.*, 264 U.S. 463 (1924); *Dwight & Lloyd Sintering Co. v. Greenawalt*, 27 F.2d 823 (2d Cir. 1928); *Westinghouse Electric and Mfg. Co. v. Jeffrey-De Witt Insulator Co.*, 22 F.2d 277 (2d Cir. 1927); *Crown Cork & Seal Co. v. Ferdinand Gutmann Co.*, 304 U.S. 159 (1938).

The Supreme Court in *Webster Electric Co. v. Splitdorf Electrical Co.*, *supra*, held that claims expanding the patentee's original claims will be invalidated by a delay of two years in applying for the broadened claims unless the delay is justified where there have been intervening rights for more than two years before the broadened claims were filed.

In *Dwight & Lloyd Sintering Co. v. Greenawalt*, *supra*, the court in applying the *Webster Electric*

case held claims presented by amendment more than two years after the defendant had reduced [232] the alleged infringing device to commercial practice invalid because of laches.

The decision in Webster Electrical Co. v. Splitdorf Electrical Co., *supra*, is clearly applicable to amendments to an original application. Wagenhorst v. Hydraulic Steel Co., 27 F. 2d 27 (2d Cir. 1928).

Thus Coleman's claim 2 of the Giwosky patent is invalid since it was filed more than two years after plaintiff's adverse intervening use of the alleged infringing devices.

Moreover, it is well established that a claim is invalid and unenforceable if the device covered by the claim has been on public use or on sale more than one year prior to the date on which the new claim is submitted in the patent application. Muncie Gear Works, Inc. et al. v. Outboard, Marine and Manufacturing Co. et al., 315 U.S. 759 (1942).

As discussed in detail in plaintiff's prior motion papers, Mr. Giwosky did not submit a supplemental oath to the effect that the changes made by amendment to the application were part of his original invention. Such an oath is essential if the changes represent a departure from the original claims, as in the present case.

Coleman alleges that issues 2-7 and 7-9 set forth above are triable issues of fact concerning this ground which cannot be resolved by summary judgment proceedings. The alleged issues 2-4, 7 and 8 can be resolved merely from an inspection of the file history of the Giwosky patent application.

Alleged issue 9 concerning the difference in language between the term "heat exchange relation" and the statement that air "impinged upon the closure plate" is not relevant with respect to this ground of invalidity. This question is relevant primarily with respect [233] to defendant's misleading the Patent Office as to the importance of features of the claim.

Coleman alleges as a further triable issue of fact

"(13) Is claim 2 of the Giwosky patent directed to inventive subject matter which is supported by the Giwosky application as originally filed?"

This matter may be ascertained from an inspection of the file history of the Giwosky patent application.

As discussed above, with reference to alleged issues 2 and 7, the application for the Giwosky patent as originally filed shows and describes a wall heater structure having three separate stages of heat exchange and it describes a wall heater operation having three stages of heat exchange. This application, as originally filed, is directed to an entire wall heater combination, and it does not disclose or suggest that the wall heater structure might be modified to employ only two stages of heat exchange. On July 11, 1956, the third paragraph of the specification was amended to state that one or a plurality of cooling streams may be employed in connection with the flue, instead of the previous statement that a plurality of cooling streams are employed in connection with the flue. Also, claim 21 which became

claim 2 of the issued patent was introduced for the first time in the amendment of July 11, 1956.

Obviously the three-stage wall heater which had been the subject of Coleman's Giwosky patent application from October 1953 to July 1956 is a different invention from the two-stage wall heater which Coleman endeavored to encompass by broadening the application at that time. This is particularly true in view of the fact that the inventor has stated under oath that he found the third stage to be essential to the proper operation of the wall heater. (Giwosky affidavit submitted with Plaintiff's Motion, Paragraph 10.) [234]

The patent statutes provide that "No amendment shall introduce new matter into the disclosure of the invention." 35 U.S.C. 132. The courts have held that in order to establish that new matter has not been introduced by amendment contrary to the statute, the evidence must show that the feature added by amendment is necessary and inevitably inherent in the invention which is described in the application as originally filed, and inherency may not be established by possibilities or probabilities. *Interchemical Corp. v. Watson*, 145 F.Supp. 179 (D.C. Dist. of Col., 1956); *Hansgirk v. Kemmer*, 102 F.2d 212 (C.C.P.A. 1939); *Forward Process Co. v. Cole*, 116 F.2d 946 (D.C. Cir. 1940).

Obviously, the use of only a single stage of heat exchange along the flue so as to provide a wall heater having only two stages of heat exchange as required by claim 2 of Coleman's Giwosky patent is not necessarily inherent in the invention described

in the application as originally filed. The original application made no mention of such a possibility. Even with the amendment of July 1956, it is not clear how the wall heater structure would function satisfactorily with only two stages of heat exchange.

Since no genuine issue exists as to the facts underlying plaintiff's second ground of its motion for summary judgment, the motion should be granted.

III.

Coleman's Immaterial Variance From the Prior Art Is Not Patentable

IV.

The Presumption of Validity Does Not Pre- vent Awarding Summary Judgment Against Coleman

In the case at bar a summary judgment of invalidity on the grounds of anticipation by the prior art should be granted.

There is no genuine issue as to the following facts:

1. Hollingsworth et al. designed and patented an integrated wall heater and economizer structure long before Giwosky's patent application was filed.

2. Coleman's Kice testified under oath in January 1955 to the fact that the Hollingsworth et al. heater took room air "up through the columns of the trim * * * into the space above the lower box * * * into the secondary heat exchanger." (R. 359.)

3. In July 1956 Coleman represented to the Patent Office that in the Hollingsworth construction

“no provision is made for causing room air to flow over the upper surface of the forward portion of the barrier plate (lower box top) and into the lower portion of the economizer.” (Amendment of July 11, 1956.)

4. In May 1956 Coleman represented to the Patent Office that Hollingsworth et al. “shows only dead air space in this area” above the lower box top. (Amendment of May 29, 1956.)

5. The patent issued to Browell, No. 268,862, was not cited as a reference against the Giwosky application. (File history of the Giwosky patent.) [236]

This Court recently held that a summary judgment of invalidity is proper where pertinent prior art patents were not cited by the Patent Office and the elements of the claimed apparatus “are easily understood from a reading of the claims of the patent in conjunction with the specifications and drawings.” *Delco Chemicals v. Cee-Bee Chemical Co.*, 157 F. Supp. 583, 588 (S.D. Cal. 1957).

Similarly, the Court of Appeals for the Ninth Circuit held in a case relied upon by the defendants, that summary judgment of invalidity over the prior art can be granted. *Park-In Theatres v. Perkins*, 190 F. 2d 137 (9th Cir. 1956).

In the case at bar, as in the case of *Vermont Slate Co. v. Tatko Brothers Co.*, 233 F. 2d 9, 10 (2d Cir. 1956)

“The prior art and the patent claims are, without expert aid, easily understandable * * * Nor did it require expert testimony to make it plain that the

differences between the prior art and the patent claims were obvious to persons having ordinary skill in the trade at the time the alleged invention was made.”

On the uncontroverted facts, summary judgment should be granted.

The purported patentable difference between Hollingsworth 2,602,441 and Claim 2 of Giwosky is the use of room air to cool the top of the lower box in the second stage of heating in the Giwosky patent, i.e., the air that is warmed by circulation through the economizer. As has been pointed out, the Hollingsworth device uses room air which passes through the conduits in the trim into the space above the lower box top and then into the economizer in the Hollingsworth device. This fact was known to Coleman at least as early as January 1955, when it was stated in this Court by Mr. Kice.

In order to obtain a patent over the reference Hollingsworth, Coleman misrepresented to the Patent Office the effect of these conduits for airflow in the Hollingsworth device and unequivocally stated to the Patent Office that only a dead air space existed above the lower box in the Hollingsworth device. Doubtless if the Patent Office had known that this statement by Coleman was incorrect, no patent would have been granted on the Giwosky application. Since The Coleman Company misrepresented to the Patent Office the existence of certain features in the Hollingsworth device in order to obtain the Giwosky patent, the presumption of validity which would normally exist as to references of record has

been destroyed. *Floridan v. Attapulugus Clay Co.*, 35 F. Supp. 810, 814 (D.C. Del. 1940).

After the Patent Office examiner stated in his Office letter dated June 12, 1956, that "No invention is seen in providing a direct room air inlet to the economizer of Hollingsworth to the exclusion of that shown in this reference," Coleman further misled the Patent Office by strenuously arguing the importance of air flow over the lower box top in order to obtain a patent. (Amendment dated July 11, 1956.)

That such air flow is not important in the Giwosky device is made clear by his affidavit dated November 20, 1957. Mr. Giwosky states in paragraph 7:

"The first point at which a dangerously high temperature might be reached in the economizer shown and described in my application is where the wall panel 12 comes in contact with the flange near the bottom of the economizer casing 22 * * * The wall panel 12 may be of combustible material and may catch fire if it is heated too highly. The closure plate 18, on the contrary, is not in contact with combustible material and represents no fire hazard if it is heated too highly." [238]

Mr. Giwosky went on to state that there was no need to bring room air in heat exchange relationship with the plate 18 and that he "never considered such heat exchange relation * * * a part of the invention for which I filed said application."

Thus, Mr. Giwosky has pointed out under oath that the basis on which Coleman obtained issuance

of the patent—the use of room air to cool the barrier plate—is of no consequence in his device. Coleman urges in its Memorandum in Opposition to Plaintiff's Motion that this is like arguing that the act of turning off a radiator in a room is of “no consequence,” since the objective to be accomplished is to cool the room and not the radiator, *per se*. Coleman goes on to argue that the cooling of the radiator is the means to the desired end. This is fallacious reasoning because the radiator in question (i.e., the top of the box in which the primary heater is located) is one that cannot be turned off or cooled appreciably. The entire heat generated by the wall heater is generated within the space immediately below the top of the lower box, and hence, it is inherently maintained at a high temperature whenever the heater is operating.

In such a situation the way to maintain the adjacent wall members of the room at satisfactorily low temperatures is to cause air to pass over the wall members, just as one would cause cool air to pass through a room in order to cool it if there was a radiator in it which could not be turned off or cooled appreciably by the flow of air over it.

There is nothing, therefore, in Mr. Giwosky's later affidavit dated April 14, 1958 which contravenes his earlier statement. Thus his later statement that “The ultimate objective was to reduce the heat transferred to the adjacent wall members of the room in which the heater would be installed” relates only to hot spot “A.” And the happenstance that room air taken into the bottom of economizer “im-

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In such a situation the way to maintain the adjacent wall members of the room at satisfactorily low temperatures is to cause air to pass over the wall members, just as one would cause cool air to pass through a room in order to cool it if there was a radiator in it which could not be turned off or cooled appreciably by the flow of air over it.

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pinged upon the closure plate" is [239] completely consistent with his statement that he never considered heat exchange between such room air and the closure plate 18 "a part of the invention."

This Court has recently held that references as to which no presumption of validity exists may be used to invalidate a patent on a motion for summary judgment. *Delco Chemicals v. Cee-Bee Chemical Co.*, 157 F.Supp 583 (S.D. Cal. 1957). In view of the equivalent means shown by Hollingsworth for cooling the area above the lower box, the element upon which Giwosky placed primary importance in obtaining a patent is anticipated by Hollingsworth and on that reference alone the Giwosky patent is invalid. However, the uncited art as well as the art of record further serves to invalidate the patent in suit.

Admittedly Hollingsworth's invention was much earlier in time than the development work done by Mr. Giwosky and as plaintiffs have pointed out in the case of *Holly v. Coleman* (15,886-WM), the early fireplace art in of itself did not solve the problems of wall heaters. However, after Hollingsworth et al. showed how to use secondary heat exchangers in wall heaters, the fireplace art concerning such secondary heat exchangers became important to the wall heater art. Hence the fireplace art considered along with the invention made by Hollingsworth of an integrated wall heater with a secondary heat exchanger is pertinent to show invalidity of the patent to Mr. Giwosky.

The most pertinent fireplace art is the patent

issued to Browell in 1882. The pertinence of this patent was clearly brought out during the trial of *Holly v. Coleman* (15,886-WM) by the testimony of Mr. Kice and the argument of Mr. Lyon as set forth in pages 11 through 13 of plaintiff's Memorandum in Support of Motion for Summary Judgment. A comparison of the Browell patent with the references other than Hollingsworth cited by the Patent Office in the Giwosky application further demonstrates [240] that the Browell patent is more pertinent than any of the references of record except Hollingsworth. Copies of these references are attached hereto as Exhibits A through D.

The reference Cayot 2,702,539 is a conventional single stage wall heater, which was cited merely to show certain design details of casing construction at the top of the heater. (Office action, May 13, 1955.)

The reference Snyder 2,093,492 shows a fireplace heater which obtains some additional heat by circulating air about a portion of the flue around the fireplace. The inlet for the air circulated about the flue is a conduit extending through the masonry to the outside of the dwelling in which the fireplace is installed.

The reference Derrough 1,608,777 shows a means of circulating air about the flue in a masonry chimney. Each stage of heating air in the chimney embraces a complete floor of a room with the inlet at the floor level and the outlet at the ceiling level.

The reference Bacon 786,713 shows a method of transferring warm air from one floor to the next by

using a duct around the chimney of a fireplace heater. Bacon does not employ any fixed barriers between what might be termed stages of air flow along the chimney.

By contrast the reference Browell shows a metal flue construction in which air is taken into a casing about the flue at a point b directly above the primary heating appliance and discharged at an intermediate point I below a barrier. The secondary heat exchanger of the Giwosky patent is the same thing. Air is taken into the casing about the flue at a point 20 directly above the primary heating appliance and discharged at an intermediate point 23 below a barrier.

Admittedly Hollingsworth et al. were the first to invent an integrated wall heater with a secondary heat exchanger. No [241] inventive genius was necessary to adapt Browell's flue construction to the economizer or secondary heat exchanger once Hollingsworth had shown how to employ an economizer or secondary heat exchanger in a wall heater. Since the Browell patent was not a reference cited by the Patent Office no presumption of validity exists as to the combination of Browell and Hollingsworth so that summary judgment of invalidity may be granted. *Delco Chemicals Inc. v. Cee-Bee Chemical Co.*, 157 F.Supp. 583, 590 (S.D. Cal. 1957).

For convenience, the foregoing discussion has related to the so-called third ground and the so-called fourth ground in support of the plaintiff's motion for summary judgment. Defendant in its Statement of Genuine Issues has posed the following questions

under the third and fourth grounds of plaintiff's motion.

(14) Is claim 2 of the Giwosky patent valid over the prior art?

As heretofore pointed out, no expert testimony is needed to explain the Giwosky patent or the prior art. Summary judgment may, therefore, be granted.

(15) Does the fact that Coleman's commercial wall heaters constructed in accordance with the Giwosky patent were held to infringe Hollingsworth Patent No. 2,602,441 have any bearing on the question of whether the Giwosky patent covers patentable improvements over the Hollingsworth design?

As heretofore pointed out Coleman's commercial wall heaters have never been constructed in accordance with the Giwosky patent. This alleged issue of fact is not material to the grounds for summary judgment presented by plaintiff.

(16) Does Browell Patent No. 268,860 anticipate the invention covered by claim 2 of the Giwosky patent?

(17) Can the Browell patent be combined with the Hollingsworth patent to invalidate claim 2 of the Giwosky patent? [242]

The reference Hollingsworth alone or the combination of the references Browell and Hollingsworth invalidate claim 2 of the Giwosky patent so that a summary judgment of invalidity may be granted.

(18) Did the United States Patent Office overlook the most pertinent prior art in its examination of the Giwosky application?

(19) Is the Browell Patent No. 268,860 merely cumulative with other patents officially cited against the Giwosky application by the Patent Office?

In view of Hollingsworth as heretofore pointed out, the reference Browell is not merely cumulative but is the most pertinent fireplace patent to show lack of invention in the Giwosky patent. The Browell patent shows the same secondary heat exchanger that is disclosed in the Giwosky patent. The other patents cited by the Patent Office do not.

(20) Was the Patent Office misled by any untrue representations during the prosecution of the Giwosky application?

As previously stated, in view of the testimony of Mr. Kice, the affidavits of Mr. Giwosky and the representations made to the Patent Office by Coleman, there is no issue as to the established fact that the Patent Office was misled by untrue representations during the prosecution of the Giwosky application.

No genuine issue of material fact on the issue of anticipation of the patent in suit exists and so summary judgment of invalidity on that ground should be granted.

Conclusion

“Summary judgment represents a most useful legal invention to save time and expense, by the avoidance of a trial, when there exist no material fact-issues. It may well be that, in [243] a patent case, a judge should exercise unusual caution in granting a summary judgment. But there are pat-

ent cases where it would be an absurd waste of time and effort to deny such a judgment. This is such a case." Vermont Structural Slate Company, Inc. v. Tatko Brothers Slate Co., Inc., 233 F.2d, 9, 10 (2d Cir. 1956).

Dated this 7th day of May, 1958.

Respectfully submitted,

CHRISTIE, PARKER & HALE,
JAMES B. CHRISTIE,
C. RUSSELL HALE,
RICHARD B. HOEGH,
ASHLEY STEWART ORR,

/s/ By C. RUSSELL HALE,

/s/ RICHARD B. HOEGH,

Attorneys for Plaintiff. [244]

[Note: Exhibit A—Patent L. B. Cayot No. 2,702,539. Exhibit B—Patent R. W. Snyder No. 2,093,492. Exhibit C—Patent H. Derrough No. 1,608,777. Exhibit D—J. D. Bacon & T. McGarrigal No. 786,713 are set out in the Book of Exhibits 327-347.]

Affidavit of Service by Mail Attached. [262]

[Endorsed]: Filed May 8, 1958.

[Title of District Court and Cause.]

PROPOSED FINDINGS OF FACT AND
CONCLUSIONS OF LAW

Pursuant to Local Rule 3(d)(2), the plaintiff

hereby submits the proposed Findings of Fact and Conclusions of Law. There is no genuine issue as to any of the proposed Findings of Fact:

1. Plaintiff, The Siegler Corporation, is a Delaware corporation and has a place of business at 875 South Arroyo Parkway, Pasadena, California.

2. Defendant, The Coleman Company, Inc., is a Kansas corporation and has a place of business in the County of Los Angeles, State of California.

3. This Court has jurisdiction of the subject matter of the action pursuant to the provisions of 28 U.S.C. Sec. 1338 relating to patent causes and 38 U.S.C. Sec. 2201 relating to declaratory judgments. [269]

4. On or about December 31, 1956, the defendant, by a letter addressed to the Holly Manufacturing Company, Inc., 875 South Arroyo Parkway, Pasadena, California, gave notice to Holly Manufacturing Company of alleged infringement of United States patent No. 2,767,702, which was applied for by Harry L. Giwosky and assigned to The Coleman Company, and which issued on October 23, 1956. At all times since on or about November 29, 1955, Holly Manufacturing Company has been and now is a division of the plaintiff and is known as Holly Manufacturing Company, a Division of The Siegler Corporation.

5. By a letter dated February 6, 1957, the plaintiff advised the defendant that the plaintiff does not infringe said Giwosky patent No. 2,767,702.

6. An actual controversy now exists between the

parties to this action so that the plaintiff is entitled to a declaration of its rights by this Court.

7. The defendant's charge of infringement of said patent by the plaintiff relates to wall heaters being manufactured and sold by the plaintiff in the County of Los Angeles, State of California.

8. The Coleman Company at all times since October 23, 1956, has been and now is the owner of all right, title and interest in and to said Giwosky patent No. 2,767,702.

9. The device described in claim 2 of said patent is anticipated by United States patent No. 268,860, issued to Browell in 1882 and by the combination of the Browell patent and the device disclosed in patent No. 2,602,441, issued to Holly Manufacturing Company on July 8, 1952.

10. The patent to Browell, No. 268,860, was not cited against the application for said Giwosky patent No. 2,767,702 and is more pertinent to show the lack of invention over the prior art of the device claimed in claim 2 of said patent than the patents cited as references by the Patent Office. [270]

11. Claim 1 of said Giwosky patent No. 2,767,702 describes a wall heater having three stages or passageways for conveying increments of air through the wall heater. Claim 2 of said Giwosky patent No. 2,767,702 describes a wall heater having two stages or passageways for conveying increments of air through the wall heater.

12. The two-stage wall heater described in claim 2 of said Giwosky patent No. 2,767,702 was constructed and tested by the inventor prior to filing

the application for the patent, and he found the two-stage wall heater unsatisfactory and discarded it. Thereafter the inventor redesigned the wall heater to employ three stages, and the three-stage wall heater was constructed and successfully tested prior to filing the application for the patent. The statement of invention and all of the claims of the application for the Giwosky patent as originally filed were directed to the three-stage wall heater. None of the original claims were directed to a two-stage wall heater, and the specification as originally filed did not describe a two-stage wall heater.

13. The two-stage wall heater described by claim 2 of the Giwosky patent No. 2,767,702 is not part of the invention for which Harry L. Giwosky applied for a patent.

14. Harry L. Giwosky, the named inventor of the devices covered in said patent No. 2,767,702 is not the inventor of the two-stage wall heater described by claim 2 of said patent.

15. The changes and amendments in the claims and specification of the original application for said Giwosky patent No. 2,767,702 during the prosecution of the application in the Patent Office broadened the application to embrace new matter not described in the application as filed. Prior to the time plaintiff's devices appeared on the market the claims in said application were limited to wall heaters having three stages of heat exchange as opposed to the two stages of heat exchange embodied in the device [271] claimed in claim 2. Said changes and amendments appearing in claim 2 of

said patent were made after the plaintiff's accused devices, which have two stages of heat exchange, appeared on the market.

16. The device claimed in claim 2 of said patent is not embraced in the statement of invention or the claims of the original application and no supplemental oath was filed to cover the subject matter of such claim.

17. Claim 2 of patent No. 2,767,702 is invalid.

18. During the prosecution of said patent The Coleman Company misled the Patent Office as to material matters affecting the patentability of the devices claimed in said patent.

Dated: This 28th day of March, 1958.

CHRISTIE, PARKER & HALE,
JAMES B. CHRISTIE,
C. RUSSELL HALE,
RICHARD B. HOEGH,
ASHLEY STEWART ORR,

/s/ By RICHARD B. HOEGH,
Attorneys for Plaintiff. [272]

[Endorsed]: Lodged March 31, 1958. Filed June 19, 1958.

[Title of District Court and Cause.]

ORDER ON PLAINTIFF'S MOTION
FOR SUMMARY JUDGMENT

This cause having come before the Court for hearing on plaintiff's motion for summary judg-

ment, filed March 31, 1958; and the motion having been argued and submitted for decision; and it appearing to the Court that:

(1) plaintiff brought this action for a declaration of invalidity and non-infringement as to United States Letters Patent No. 2,767,702, issued on October 23, 1956 to H. L. Giwosky, assignor of the defendant, The Coleman Company;

(2) an actual controversy exists between plaintiff and defendant as to whether or not claim 2 of the patent in suit is valid and, if so, whether claim 2 is infringed by plaintiff's wall heater; [273]

(3) among the prior art references cited in the administrative proceedings leading to issuance of the patent in suit is Patent No. 2,602,441, issued July 8, 1952, to Hollingsworth, et al, assignor of the plaintiff, and it has been finally and conclusively adjudicated between the parties that plaintiff's Hollingsworth patent No. 2,602,441 is valid and has been infringed by wall heaters manufactured and sold by defendant [See *The Coleman Company v. Holly Mfg. Co.*, 233 F. 2d 71 (9th Cir.), cert. denied 352 U. S. 952 (1956)]; and moreover the parties have stipulated that the entire record in that case in this Court is here for consideration upon this motion for summary judgment [See "*Holly Manufacturing Company, a corp., Plaintiff v. The Coleman Company, Inc., a corp., Defendant*", No. 15,886-WM—Civil];

(4) there is no issue of fact as to the contents of the patent in suit, or as to the contents of the file-wrapper record of Patent Office proceedings lead-

ing to the issuance of the patent in suit, or as to the contents of the various prior-art patents involved;

(5) United States Patent No. 268,860 issued to Browell in 1882 is admitted by the parties to be pertinent prior art which concededly was not cited and presumably not considered by the Patent Office in passing on the application for the patent in suit;

(6) the presumption that a patent is valid, as embodying an invention over the prior art, does not subsist as to pertinent prior art not cited or [274] considered by the Patent Office in passing on the application for the patent [*Jacuzzi Bros., Inc. v. Berkeley Pump Co.*, 191 F. 2d 632, 634 & note 4, 637 (9th Cir. 1951); *Gomez v. Granat Bros.*, 177 F. 2d 266, 268 (9th Cir. 1949), cert. denied 338 U.S. 937 (1950); *Mettler v. Peabody Eng. Corp.*, 77 F. 2d 56, 58 (9th Cir. 1935); and see cases from other circuits collected in *Delco Chemicals v. Cee-Bee Chemical Co.*, 157 F. Supp. 583, 587-588 (S.D.Cal. 1957)];

(7) there being no presumption that claim 2 of the patent in suit describes a heater which is a patentable advance over the prior art as disclosed in the Browell patent No. 268,860, considered in conjunction with plaintiff's cited Hollingsworth Patent No. 2,602,441, it is for the Court, upon this motion for summary judgment to determine from (a) the matters finally adjudicated, as well as those matters as to which there is no issue of fact, appearing in the record in this Court in case No.

15,886-WM Civil, (b) the undisputed contents of the patent in suit, (c) the undisputed contents of the file wrapper of the administrative proceedings in the Patent Office, and from (d) the undisputed contents of the prior-art patents, whether claim 2 of the patent in suit describes an inventive advance over the prior art [United States v. Esnault-Pelterie, 303 U. S. 26, 30 (1938); Park-in Theatres, Inc. v. Perkins, 190 F. 2d 137 (9th Cir. 1951)]; and

(8) the Court concludes, as a matter of law, from undisputed facts disclosed by the letters, the [275] file wrapper of the patent in suit, and the prior-art patents, both cited and non-cited, that claim 2 of the patent in suit is invalid, being anticipated by Patent No. 268,860 to Browell, and Patent No. 2,602,441 to Hollingsworth, et al [35 U.S.C. § 102(b)], and failing in all events to meet the standard of invention, because lacking in patentable novelty [id., § 103; Bergman v. Aluminum Lock Shingle Corp. of America, 251 F. 2d 801, 809-810 (9th Cir. 1958); Stauffer v. Slenderella Systems, 254 F. 2d 127 (9th Cir. 1957); Muench-Kreuzer Candle Co., Inc. v. Wilson, 246 F. 2d 624 (9th Cir.), cert. denied 355 U. S. 882 (1957); Oriental Foods v. Chun King Sales, 244 F. 2d 909 (9th Cir. 1957); Kwikset Locks, Inc. v. Hillgren, 210 F. 2d 483 (9th Cir.), cert. denied 347 U. S. 989 (1954)];

It Is Now Ordered that plaintiff's motion for a summary judgment declaring invalid claim 2 of the patent in suit is hereby granted; and the attorneys

for plaintiff will lodge with the Clerk within ten days findings of fact, conclusions of law and judgment accordingly, to be settled pursuant to Local Rule 7.

It Is Further Ordered that the Clerk this day serve copies of this order by United States mail upon the parties appearing in this cause.

June 19, 1958.

/s/ WM. C. MATHES,

United States District Judge.

[Endorsed]: Filed June 19, 1958.

United States District Court
Southern District of California

Office of the Clerk

Room 231, U. S. Post Office & Court House

Los Angeles 12, California.

Parker, Stanbury, Reese & McGee, Esqs.

315 West 9th Street

Los Angeles, Calif.

Christie, Parker & Hale, Esqs.

595 East Colorado St.

Pasadena 1, Calif.

Re: The Siegler Corp., vs. The Coleman Co.,
No. 213-57-WM.

You are hereby notified that summary judgment

2. Defendant, The Coleman Company, Inc., is a Kansas corporation and has a place of business in the County of Los Angeles, State of California.

3. This Court has jurisdiction of the subject matter of the action pursuant to the provisions of 28 U.S.C. Sec. 1338 relating to patent causes and 38 U.S.C. Sec. 2201 relating to declaratory judgments.

4. On or about December 31, 1956, the defendant, by letter addressed to the Holly Manufacturing Company, Inc., 875 South Arroyo Parkway, Pasadena, California, gave notice to Holly Manufacturing Company of alleged infringement of United States Patent No. 2,767,702, which was applied for by Harry L. Giwosky and assigned to The Coleman Company, and which issued on October 23, 1956. At all times since on or about November 29, 1955, Holly Manufacturing Company has been and now is a division of the plaintiff and is known as Holly Manufacturing Company, a Division of The Siegler Corporation.

5. By letter dated February 6, 1957, the plaintiff advised the defendant that the plaintiff does not infringe said Giwosky patent No. 2,767,702.

6. An actual controversy now exists between the parties to this action so that the plaintiff is entitled to a declaration of its rights by this Court.

7. There is no genuine issue as to any material fact necessary to the consideration and determination of said motion for summary judgment.

8. The defendant's charge of infringement of said patent by the plaintiff relates to wall heaters having two stages or passageways for conveying

increments of air through the wall heaters being manufactured and sold by the plaintiff.

9. Claim 1 of said Giwosky patent No. 2,767,702 describes a wall heater having three stages or passageways for conveying increments of air through the wall heater. Claim 2 of said Giwosky patent No. 2,767,702 describes a wall heater having two stages or passageways for conveying increments of air through the wall heater.

10. Defendant has admitted that claim 1 of said Giwosky Patent No. 2,767,702 does not cover plaintiff's wall heater models 25NS, 25ND, 35NS, 35ND, 50ND, 57ND, 250S, 250D, 350S, 350D, 500D, 570D, 25S, 25D, 35S, 35D, 50D, and 55D, and the parties hereto have agreed that claim 1 of said Giwosky patent No. 2,767,702 is not in issue in this action.

11. It is admitted by the parties hereto that United States Letters Patent No. 268,860 issued to Browell in 1882 is pertinent prior art which concededly was not cited and presumably not considered by the Patent Office in passing on the application for the patent in suit No. 2,767,702 issued to Giwosky, and further, the parties stipulated that the entire record of Holly Manufacturing Company v. The Coleman Company, Civil No. 15,886-WM in this Court, is now before this Court for consideration upon plaintiff's motion for summary judgment.

12. The patent to Browell No. 268,860 discloses that it is old in the art to employ a metal flue construction on a primary heating appliance wherein air is taken into a casing about the flue at a location immediately above the primary heating appli-

ance and discharge below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located. Claim 2 of the Giwosky patent No. 2,767,702 describes a metal flue construction 17 on a primary heating appliance 10 wherein air is taken into a casing 22 about the flue at a location 20 immediately above the primary heating appliance and discharge below a barrier 26 in the casing at a location near the ceiling of the room in which the heating appliance is located, and hence claim 2 of said Giwosky patent No. 2,767,702 does not differ patentably from the device shown in the Browell patent No. 268,860.

13. The patent to Hollingsworth, et al., No. 2,602,441, discloses that it is old in the art to employ in a wall heater having a primary heating element with a secondary heat exchanger to heat a stream of air in addition to that heated by the primary heating element, and the patent to Browell No. 268,860 discloses that it is old in the art to provide a secondary heat exchanger employing a metal flue construction on a primary heating appliance wherein air [283] is taken into a casing about the flue at a location immediately above the primary heating appliance and discharged below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located. Claim 2 of the Giwosky patent No. 2,767,702 describes a wall heater employing a primary heating appliance and having a flue construction which serves as a secondary heat exchanger wherein air is taken into a casing about the flue at a loca-

tion immediately above the primary heating appliance and discharged below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located, and hence claim 2 of said Giwosky patent No. 2,767,702 does not differ patentably from the combination of the devices shown in Hollingsworth patent No. 2,602,441 and Browell patent No. 268,860.

14. The device described in claim 2 of said Giwosky patent No. 2,767,702 is anticipated by United States Patent No. 268,860 issued to Browell in 1882 and it is also anticipated by the device disclosed in Hollingsworth patent No. 2,602,441 issued to Holly Manufacturing Company on July 8, 1952.

15. The device described in claim 2 of said Giwosky patent No. 2,767,702 fails to meet the standard of invention required by the laws of the United States because the invention claimed therein lacks patentable novelty over the prior art patents.

16. The device described in claim 2 of said Giwosky patent No. 2,767,702 fails to meet the standard of invention required by the laws of the United States because the subject matter of said claim 2 would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art.

17. Extrinsic evidence is not needed to explain or evaluate the prior art, cited or uncited, and its applicability to the subject matter of claim 2 of the patent in suit. [284]

18. In claim 2 of the Giwosky patent in suit, the various elements set forth as constituting the

patented device do not produce any result not produced in the prior art, or any unexpected result, and do not produce in aggregation any result greater than the sum of their separate results, or any result different from the result which in aggregation is produced in the prior art.

19. The elements of claim 2 of the Giwosky patent in suit, being an alleged combination invention composed of elements old in the art, do not perform any additional and different function in combination than they perform out of it and, as such, said claim 2 fails to meet the standard of invention required by the laws of the United States.

20. Claim 2 of the Giwosky patent in suit is completely anticipated by the prior art.

21. The device of claim 2 of the Giwosky patent in suit is lacking in invention over the prior art.

22. The device of claim 2 of the Giwosky patent in suit is devoid of patentable novelty.

23. The "Order on Plaintiff's Motion for Summary Judgment", filed June 19, 1958, is by reference made a part hereof.

Conclusions of Law

1. This Court has jurisdiction of this action and of the parties to the action.

2. The Giwosky patent in suit No. 2,767,702 is owned by the defendant, The Coleman Company.

3. Any presumption that claim 2 of the Giwosky patent in suit is valid does not subsist as to the pertinent prior art which was not cited or considered by the Patent Office.

4. Claim 2 of Letters Patent No. 2,767,702 issued to Harry L. Giwosky and assigned to the defendant, The Company [285] Company, is invalid as being anticipated by uncited United States Patent No. 268,860 issued to Browell and by the cited United States Patent No. 2,602,441 issued to Hollingsworth et al.

5. There being no dispute of fact as to the contents of the file wrapper history of the Giwosky patent in suit or the prior art patents, both cited and uncited, and no subsisting presumption of validity as to the pertinent prior art which was not cited by the Patent Office, and extrinsic evidence not being required for the purposes of explanation, the question of anticipation and want of invention, and hence of validity, are questions of law.

6. Claim 2 of the Giwosky patent in suit is invalid and void for want of invention over the prior art.

7. Claim 2 of the Giwosky patent in suit is invalid and void for failure to meet the requisite standard of invention in that it lacks patentable novelty over the prior art.

8. Plaintiff is entitled to judgment declaring claim 2 of United States Letters Patent in suit No. 2,767,702 invalid and void and judgment dismissing the counterclaim of the defendant, and for plaintiff's taxable costs.

Judgment

In accordance with the foregoing Findings of

Fact and Conclusions of Law, it is Ordered, Adjudged and Decreed:

1. The defendant, The Coleman Company, is the owner of United States Patent No. 2,767,702.

2. Claim 2 of United States Patent No. 2,767,702 in suit is invalid and void.

3. The counterclaim of the defendant, The Coleman Company, is hereby dismissed.

4. Plaintiff shall recover its taxable costs herein in the [286] amount of \$132.47, as taxed by the Clerk.

Dated: This 10th day of July, 1958.

/s/ WM. C. MATHES,

United States District Judge.

Presented by:

CHRISTIE, PARKER & HALE,

JAMES B. CHRISTIE,

C. RUSSELL HALE,

RICHARD B. HOEGH,

ASHLEY STEWART ORR,

/s/ By ASHLEY STEWART ORR,

Attorneys for Plaintiff. [287]

Affidavit of Mailing Attached. [288]

[Endorsed]: Lodged June 30, 1958. Filed July 10, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice Is Hereby Given that The Coleman Com-

pany, Inc., defendant above named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the summary judgment entered in this action on July 11, 1958, and from all prior orders, decisions, rulings, findings and conclusions adverse to this defendant rendered during the trial of this case.

Dated this 23rd day of July, 1958.

PARKER, STANBURY, REESE &
McGEE,

/s/ By RAYMOND G. STANBURY,
Attorneys for Defendant-Appellant, The Coleman
Company, Inc. [289]

Affidavit of Service by Mail Attached. [290]

[Endorsed]: Filed July 23, 1958.

[Title of District Court and Cause.]

CERTIFICATE BY CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled case:

A. The foregoing pages numbered 1 to 292, inclusive, containing the original:

Complaint.

Summons.

Stipulation extending time to plead, filed 3/8/57.

Notice of Motion and Motion for Discovery.

Minute Order 4/1/57 re plaintiff's motion to produce.

Notice of Taking Depositions.

Answer and Counterclaim.

Answer to Defendant's Counterclaim.

Notice of Pre-Trial Conference.

Stipulation and Order continuing pre-trial hearing, filed 8/15/57.

Suggestion as to the applicability of the "Low Number Rule", etc.

Stipulation continuing pre-trial hearing, filed 10/10/57.

Interrogatories to Defendant.

Plaintiff's Requests for Admissions.

Stipulation continuing pre-trial hearing, filed 12/16/57.

Stipulation extending time to answer interrogatories and request for admissions.

Notice as to further extensions or continuances.

Notice pursuant to 35 U.S.C. Sec. 282.

Defendant's reply to Plaintiff's Request for Admissions under Rule 36.

Interrogatories to Plaintiff.

Plaintiff's Answers to Defendant's Interrogatories.

Pretrial Statement.

Affidavits, Prior Art Patents and certified copy of File Wrapper in support of Plaintiff's Motion for Summary Judgment.

Notice of Plaintiff's Motion for Summary Judgment.

Memorandum in support of Motion for Summary Judgment.

Stipulation continuing pre-trial hearing and Motion for Summary Judgment.

Affidavit of Raymond G. Stanbury.

Memorandum in opposition to Motion for Summary Judgment.

Affidavits submitted by Defendant in opposition to Plaintiff's Motion for Summary Judgment.

Statement of Genuine Issues.

Reply to Defendant's Memorandum in opposition to Plaintiff's Motion for Summary Judgment.

Minute Order 4/21/58 re pre-trial hearing.

Minute Order 5/12/58 re hearing Motion for Summary Judgment.

Proposed Findings of Fact and Conclusions of Law.

Order on Plaintiff's Motion for Summary Judgment.

Notice of hearing application to tax costs.

Clerk's notice of entry of Summary Judgment.

(Certified copy) Findings of Fact, Conclusions of Law and Summary Judgment.

Notice of Appeal.

Defendant-Appellant's Designation of Record on Appeal.

B. One volume of Reporter's Transcript of Proceedings had on May 12, 1958.

C. Depositions of Alwin B. Newton, Jonathan Ewert, Charles Gale, Carl L. Burrows, F. Earl Fertig, Jr., Raymond F. Biedenbender. Taken 4/17 and 18, 1957.

I further certify that my fee for preparing the foregoing record, amounting to 2.40, has been paid by appellant.

Dated: August 19, 1958.

[Seal] JOHN A. CHILDRESS,
 Clerk.

/s/ By WM. A. WHITE,
 Deputy Clerk.

[Title of District Court and Cause.]

CERTIFICATE BY CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the 2nd supplemental transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled matter:

A. The foregoing pages numbered 1 to 14, inclusive, containing the original:

Defendant's Answers to Plaintiff's Interrogatories, filed 2/11/58.

I further certify that my fee for preparing the foregoing record, amounting to 80 cents, has been paid by appellee.

Dated: January 5, 1959.

[Seal] JOHN A. CHILDRESS,
Clerk.

/s/ By WM. A. WHITE,
Deputy Clerk.

In the United States District Court, Southern Dis-
trict of California, Central Division

No. 15886-WM

HOLLY MANUFACTURING COMPANY, a cor-
poration of California, Plaintiff,

vs.

THE COLEMAN COMPANY, INC., a corpora-
tion of Kansas, Defendant.

TRANSCRIPT OF PROCEEDINGS

Los Angeles, Calif., Tuesday, Jan. 11, 1955
Honorable William C. Mathes, Judge presiding.

* * * * * [1*]

JACK KICE

called as a witness by and on behalf of the defend-
ant, having been first duly sworn, was examined
and testified as follows:

The Clerk: Will you state your name, please?

The Witness: Jack Kice.

The Clerk: K-i-c-e?

* Page numbers appearing at top of page of original Re-
porter's Transcript of Record.

(Testimony of Jack Kice.)

The Witness: That's right.

Direct Examination

Q. (By Mr. Lyon): Will you state your age and occupation, and by whom you are employed, please?

A. I am 40 years old, I work for the Coleman Company, Inc., Wichita, Kansas. The job probably requires a little explanation, because at the time of the depositions I was working—the job title that I had was assistant to the president, which would appear in the depositions, and since that time we have greatly expanded our application engineering section, and I have taken over the reorganization of that department and the service engineering department. My present job title is manager of the application engineering and service department. In this capacity I have charge of all technical matters for the sales department. That would include training and writing manuals, consultation with the design department, liaison between design and factory and [326] numerous other sections of the business.

I could probably summarize it by saying all technical matters for the sales department come under my general jurisdiction.

* * * * *

The Witness: Now, we have only been talking about fireplaces which are commonly thought of as made out of brick or stone. But [363] back in 1882 Mr. Browell—the patent, we don't have the number.

(Testimony of Jack Kice.)

Mr. Lyon: Exhibit I.

The Witness: Exhibit I. —showed a ventilated flue stack, as I have illustrated here in green on the overlay, which was made out of metal; has an inlet opening at the intermediate height above the first box. And the air that is used to ventilate the flue and keep it cool is then discharged into the room and utilized for the sake of economy. That is the first economizer as it is used in the Coleman design.

Q. (By Mr. Lyon): Mr. Kice, you have depicted substantially the device as described in the Browell patent, Exhibit I, in this overlay to Exhibit AA?

A. That is right. This illustrates very close—I don't believe there are any significant differences between what I have shown here on my overlay and the illustration in the Browell patent. In fact, there is a sketch there that I copied this from; that is, a part of the drawing is what I copied this from.

You will note that air enters the economizer——

Q. Would you mark that with a red pencil, A?

A. I have one—air enters the economizer at points A, in openings directly above the lower box, and would absorb heat from the flue and would exhaust back into the room [364] through an outlet, which I will mark B.

In the Browell patent it shows the optional alternative of going on up into second floor rooms. But

(Testimony of Jack Kice.)

what we have shown here is the practical application of the Browell patent.

Now, if I may refer back to Exhibit AB, the overlay,——

The Court: AB?

The Witness: Yes, sir.

The Court: Your last exhibit you were dealing with was——

Mr. Lyon: AA.

The Court: The Browell patent.

The Witness: The Browell patent.

The Witness: The Browell patent was the overlay on Exhibit AA.

The Court: And it is marked——

Mr. Lyon: The first one was AA that he was just discussing. Now he is discussing AB.

The Court: You mean the drawing which illustrates the Browell patent is made a part of AA?

Mr. Lyon: It was the overlay added to AA, if your Honor please.

Mr. Christie: Your Honor, it looks to me as though it is Mr. Kice's interpretation of the portion of the Browell patent; it isn't the Browell patent.

The Court: Of course, it is his interpretation.

Mr. Lyon: Your Honor, see, this is Exhibit AA originally (indicating). I mean, it was marked with all of this on. [365] Now, when he says that he adds the Browell patent, Exhibit AA, he does it by means of this overlay on top of it.

The Court: Another drawing which is attached

(Testimony of Jack Kice.)

to and is a part of Exhibit AA for identification?

Mr. Lyon: That is right, your Honor. Now, he is doing the same thing on AB, which is the side view of AA.

The Witness: You will recall that AB is a side sectional view of a typical fireplace. And we find in the art that Mr. McLeod has a patent which was allowed in 1919.

The Court: Exhibit——

Mr. Lyon: Is that Exhibit C, Mr. Kice, that you are referring to?

The Witness: That is Exhibit C, which is a metal ventilated flue stack and fireplace enclosure, that is very similar to the Holly design philosophy.

In fact, I see in this every element that is claimed by Holly. Remember that we had the lower box and the upper box, with a first radiator and a second radiator and a draft hood, with what we call a deflector.

Now, the ventilation passages that was the invention of Mr. McLeod provides ventilation from grilles at the floor level that permits a flow of air around the sides and the back of the lower radiator, or lower box, excuse me, and permits it to flow up into the second box and through it, picking up the heat from the flue, keeping it cool thereby, and [366] the heat that it picks up is discharged through a grille near the ceiling into the room.

Q. (By Mr. Lyon): Now, is that around the bottom—in this last device is there a shield between the chamber where the fire is and that——

(Testimony of Jack Kice.)

A. Yes, there is a metal shield right up the—surrounding the entire first radiator.

The Court: Now, does the air from the back of the fireplace there get over to be ejected out the front grille above?

The Witness: The space that I have shown here in blue is actually an annulus surrounding the flue passage which is made out of metal and would join on a flue going on up to exhaust the fumes outside. So it seems to me that in these comparatively early inventions we can see the elementary differences between the Coleman design, which is quite similar to the old Browell patent in 1882, and the Holly unit, which is quite similar to the McLeod patent that dates back to 1919.

* * * * *

The Court: When you use that term “heat exchanger,” are you using a term that is common in the trade? [413]

The Witness: Yes, sir.

The Court: Is it synonymous to radiator?

The Witness: More commonly called a heat exchanger than it is a radiator.

The Court: Is there a difference, or is that just a new term?

The Witness: In the language we have been using here they would be synonymous. Now, I do not believe that the secondary heat exchanger that Holly refers to, however, is synonymous with what we call a ventilated flue stack, inasmuch as they have deliberately designed, in my opinion, sir, the

(Testimony of Jack Kice.)

secondary—the lower radiator or primary exchanger somewhat smaller, and with less heat exchange capacity than we do. Because, they do depend on their secondary heat exchanger for a part of the exchange of heat between the flue gases and the air; a rather considerable part. And we are not dependent on that to operate satisfactorily. We are merely interested in ventilating that flue.

The Court: You both salvage that heat, so to speak?

The Witness: That is right.

The Court: And try to put it out in the room, and it does double duty; one, it is depended upon to heat the room, No. 1; and it tends to cool the area surrounding the lower heater, No. 2.

The Witness: That is right; just as Browell did in 1882. [414]

I would say that that about covers my exhibits.

Oh, I believe I have one more here which was Exhibit AH, already marked. And I would just like to make the comparison perhaps just a little more clearer in the action that takes place between—as comparing Coleman, as I have just done, and all of the paths of air flow that we provide to get three or four stages, depending on how you want to turn the stages; but at least three stages of ventilation cooling.

The Court: This chart is Exhibit——

The Witness: This chart that I am showing you here is AH. Oh, excuse me. The chart that I just

(Testimony of Jack Kice.)

mentioned was chart AG. Yes, sir. It shows the Coleman circulation.

The Court: That's the chart you last testified about, is it, AG?

The Witness: Chart AG was the one I was just discussing before we went over to look at the exhibit——

The Court: The chart you now have before you, AH?

The Witness: That is correct.

The Court: That involves a Holly heater?

The Witness: This shows the Holly heater that they built in and depend on. This shaded portion here would be the lower box. This darker cross hatched section is their flue or, as they would call it, the secondary heat exchanger, surrounded by a ventilation shell or annulus.

Now, they do not provide any built-in passage at all in [415] the lower section but depend on air entering through the lower grille or the—there is actually not a grille there. They just mount the unit up above the floor and the skirt covers an opening in the bottom. The grille in the front, I believe, is merely for burner air. Air comes up through here and would be free to go up through the stud space at the side of the unit in the single wall model. I frankly don't know how they get the air up the unit for the dual wall models; but I will not attempt to explain that. Air can come up through here (indicating). Now——

(Testimony of Jack Kice.)

The Court: "Here" being the annulus between the lower box and the stud, is that right?

The Witness: One of the paths is between the lower box and the stud, and the other path that I have attempted to illustrate is merely in the column area at the side of the shell.

The Court: By that do you mean the area between the radiator and the wall of the shell?

The Witness: I believe I can illustrate on their exhibit better.

This space which would be alongside of the lower box.

The Court: Between the outside of the lower box and the inside of the trim, is that right?

The Witness: That is correct; between the outside of the lower box and the inside of the shell or trim. It provides—— [416]

The Court: Shell or trim being Exhibit——

Mr. Lyon: 20-A, I believe, your Honor.

The Court: 20-A?

Mr. Lyon: What is the tag on there, Mr. Kice?

The Court: Exhibit 20-B, would it not, called "panel"?

The Witness: 20-B is the identification.

The Court: The shell is 20-A. That is the secondary heater.

The Witness: Now, that would be ventilated, just a small area of ventilation permitted at the top of the trim, as I understand their design.

The Court: I said Exhibit 20-A. It is Exhibit

(Testimony of Jack Kice.)

20. The lower box, the radiator, Exhibit 20, Holly.

The Witness: Thank you. Now, the air that I have just been referring to has only one outlet, which is the grille in the economizer. Excuse me. The grille in the secondary heat exchanger, which I will shade up here in blue. The path of flow then has to come around the solid brackets that they provide, and would come out of the grille into the room as I have shown here in the blue lines, and will indicate with arrows at the extremities.

The Court: That is the upper grille?

The Witness: That is the upper grille of the Holly secondary heat exchanger. The flow of air around the flue, which they referred to as the secondary exchanger, would be [417] somewhat as I have shown with the spiral lines, I believe. There is some question in my mind as to what occurs in this more or less stagnant portion above the grille. But I would presume that part of that heat would find its way out of the grille. A part of it would find its way as conduction and convection through the wall. And that single stage is the Holly arrangement and the multiplate stage is the Coleman arrangement.

The Court: Now, with respect to the Holly, where do you say the air comes from that is emitted from the upper grille?

The Witness: The Holly unit depends on its air supply from the opening near the floor; and is dependent on a channel being provided by the car-

(Testimony of Jack Kice.)

penter or the plasterer between the lower portion and the stud space.

The Court: In other words, it is your understanding that all the air which is emitted from the upper grille must come from the space between the studs and the heater, exterior of the heater box?

The Witness: That is my understanding exactly. And it is the way I read their patent.

I don't believe there is anything else. [418]

The Court: None of it can come from the so-called lower box proper, the interior of the lower box?

The Witness: No, your Honor. The air supply for the secondary heat exchanger must come from the space outside the lower box, between it and the stud space.

The Court: By the lower box I mean Exhibit 20, and you so understand it, do you?

The Witness: Does Exhibit 20—that includes this? Yes, sir.

The Court: It does not include the trim?

The Witness: They could get a little air up through the columns of the trim.

The Court: Up into the——

The Witness: Up into the space above the lower box.

The Court: Up into the heat exchanger?

* * * * *

PLAINTIFF'S EXHIBIT No. 11

[Letterhead of Dawson, Tilton & Graham]

HD:m

April 15, 1953

James B Christie, Esq.,
595 East Colorado Street,
Pasadena 1, California

Dear Mr. Christie:

Re: Holly Manufacturing Company

Patent No. 2,602,441—

The Coleman Company, Inc.

I have forwarded your letter of March 3, 1953, to The Coleman Company, Inc., and have received a communication from the company with respect to tests which it has performed.

I am advised that when the unit is properly installed, the air flow from the space about the lower box into the upper box is inconsequential. Of course, to make the structure hermetically sealed would require extremely tight joints, which are difficult to get in a plaster wall. It was felt by the Coleman technical people, however, that the trace of air flowing upwardly was inconsequential.

I have now been advised by Coleman that in view of the comments in your letter, they have decided to make a further change in the structure in which the upper unit is seated within the lower unit so that there is no possibility of any flow of air from the space about the lower unit into the

upper box. I believe that this will satisfy your client and I shall plan to send you a copy of the drawing of the new structure in the very near future.

DAWSON, TILTON & GRAHAM

/s/ By HORACE DAWSON
cc The Coleman Company, Inc.
Wichita 1, Kansas

Attn: Mr. Jess L. Moore, Jr.

PLAINTIFF'S EXHIBIT No. 12

[Letterhead of Dawson, Tilton & Graham]

HD:m

June 4, 1953

James B. Christie, Esq.,
595 East Colorado Street,
Pasadena, California

Dear Mr. Christie:

I am enclosing a sketch of the Coleman wall type burner. The Coleman Company has given me working drawings, but in order to make the matter clear, it seemed to me better that a drawing should be prepared similar to the one shown in the Hollingsworth, et al. patent, and, accordingly, I have had such a drawing made.

In the drawing, you will note that the second or upper box 10 is closed at its bottom and that it is open only at its forward intake end 11. None of the air from about the lower box is thus able to enter the upper box 10. Instead, the air that enters the upper box 10 is room air passing through the entrance 11 and extending upwardly about the pipe 12 and outwardly through the discharge opening 13.

I am enclosing also photostatic copies of an advertisement of the Metalbestos Vent Assembly, which advertisement came out several years prior to the filing of your client's application for patent. The advertisement shows a wall heater, and more particularly a vent structure which is employed with a wall heater. The Metalbestos Wall Heater Vent Assembly is used with the common wall heater in which there is a central radiator, a burner for heating it, a stack, a draft hood provided with a relief opening into the room, and the usual outlet and inlet passages. Over such a wall heater is placed The Metalbestos "Wall Heater Vent Assembly", which has an inner radiator communicating with the stack of the wall heater and about the radiator is a second box having inlet parts for receiving air in the lower part of the chamber. Any air leaking upwardly from about the lower box will pass into the second box of the Metalbestos Wall Heater Vent Assembly. We call this structure to your attention because your client has been concerned with the fact that a trace of air may leak past any

barrier placed in the studding space and find its way into the upper box. A studding space, with the rough plaster therein, is, of course, difficult to seal, and in the prior Metalbestos installations, it is found that a small amount of air passes upwardly around the barrier and into the second box.

Yours very truly,

DAWSON, TILTON & GRAHAM
/s/ By HORACE DAWSON

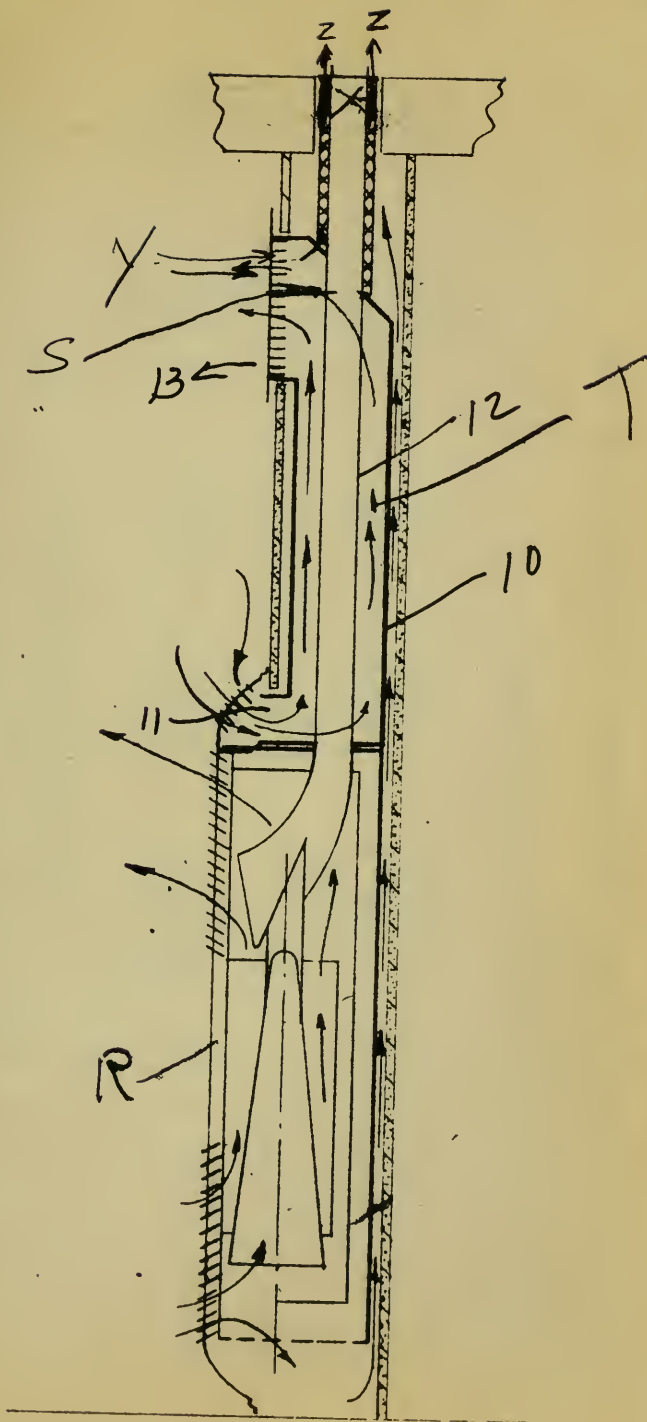
Encs.

cc The Coleman Company, Inc.

Wichita 1, Kansas

Attn: Mr. Jack Kice

854
entire
sheet #1
205



PLAINTIFF'S EXHIBIT No. 43

DATA ILLUSTRATING COMMERCIAL SUCCESS OF NEW
TYPE HOLLY WALL HEATERS

Year	*Total National Wall Heater Shipments Units	Holly Wall Heater Shipments Units	% of National Market	Holly Wall Heater Orders Units	Holly Backlog End of Year Units
1949.....	5,669
1950.....	212,366	**23,935	11.3	26,011	6,551
1951.....	205,486	***39,319	19.1	40,553	7,070
1952.....	260,721	49,046	18.8	60,790	18,469
1953.....	330,272	48,267	14.6	52,691	21,200
1954.....	† 350,000	61,406	17.5	74,335	34,166

* Figures from Bureau of Census, U. S. Dept. of Commerce

** 2,705 new type, balance—old type

*** 37,872 new type, balance—old type

† Based on 10 months reports; last 2 months estimated at average 1954 monthly level

[Title of District Court and Cause.]

TRANSCRIPT OF PROCEEDINGS

Los Angeles, January 24, 1955

* * * * *

The Court: What do you say to Mr. Christie's contention that this correspondence in evidence indicates defendants promised to seal off the lower box, but did not do it?

Mr. Lyon: I think we have. And I think all the way [686] through—I don't think any of these devices have used the principle of this device. It is entirely the principle of that 1882 patent and not the McLeod or the patent in suit. It is that you take the air in here and cool the device (indicating).

The Court: Upon what basis does the defendant claim an invention was taking in of the air in the front?

Mr. Lyon: I do not know, your Honor. We haven't got a patent. Many manufacturers, as your Honor knows, will file an application to protect himself from having somebody filing on the same thing. Now, I don't know what the principle was that they filed on this. We didn't say we had a patent. In fact, I can state to this court we don't.

The Court: I assume someone made an affidavit with respect to the patent.

Mr. Lyon: That he thought it was an invention at the time he drew it. But I can tell the court right here and now that the application was rejected on the Browell patent, if you are interested

in that. I don't think it is germane to this case.

Now, we go to these——

The Court: It wouldn't be decisive, but it might be some indication of the seriousness of the defendant's position on the issue of novelty.

Mr. Lyon: That is right. [687]

* * * * *

[Endorsed]: Filed April 1, 1955.

[Title of District Court and Cause.]

TRANSCRIPT OF PROCEEDINGS

Los Angeles, September 10, 1957

Before Theodore Hocke, Special Master.

* * * * *

HORACE DAWSON

called as a witness on behalf of the defendant, being first sworn, was examined and testified as follows: [11]

* * * * *

Cross Examination

Q. (By Mr. Hoegh): Mr. Dawson, when did you first become aware of the Holly patent?

A. I think it was just shortly after the patent issued.

Q. Did you know at that time that a possible charge of infringement would arise?

A. I think so.

Q. Didn't the Coleman Company know that?

A. I should think so.

Q. That would be the middle of 1952, about?

(Testimony of Horace Dawson.)

A. Well, it was shortly—I think in the record there is a copy of a letter of infringement notice sent.

Q. Yes. Despite your advice to the Coleman Company on these aspects of mode of operation of the Coleman device the [17] District Court laid at rest those questions, did it not?

A. The court decided that there was infringement.

Q. And that was affirmed by the court of appeals? A. That is correct.

Q. And the way in which the court would determine the infringement would be to decide that those, that the Coleman device functioned in the manner taught by the Holly patent, isn't that true?

Mr. Stanbury: Well, I will object to that as calling for the conclusion as to the way the court would decide that.

Mr. Hoegh: I assume Mr. Dawson is here as an expert on what he has given his advice as an expert on what he considered to be a matter for the question of infringement and validity.

Mr. Stanbury: We know the court has declared his advice wrong. That is self-evident.

Perhaps the question conveyed more to my mind than you meant.

Mr. Hoegh: I will withdraw it.

Q. (By Mr. Hoegh): Mr. Dawson, you stated you prepared the patent application on behalf of Mr. Giwosky. A. That is correct.

(Testimony of Horace Dawson.)

Q. What was the primary reference cited by the Patent Office against that application?

A. I don't remember the primary reference, but there are five patents listed here as references, and among them [18] is the Hollingsworth patent, 2,602,441.

Q. Do you recall whether you had particular difficulty in getting around the Hollingsworth patent?

A. I don't recall the difficulty. I know there is difficulty in prosecuting any patent application; that the art is cited and you have to argue for the features which you regard as important novel features. And there the important feature was that instead of bringing the air in from the bottom of the casing around the lower heater that the air was admitted freely through a vent in the very front of the economizer, so that the room air could be utilized in cooling the top of your heater.

Q. Do you recall how many office actions you were faced with in that application?

A. I just don't remember.

The Court: Was that patent passed upon by the District Judge in deciding this case?

Mr. Hoeg: No, it was not. At that time it was merely an application for patent.

Special Master: It had not been issued at the time of the decision?

Mr. Hoegh: That's right.

Q. (By Mr. Hoegh): You have described what you consider to be the differences in the mode of

(Testimony of Horace Dawson.)

operation between that shown in the—or, taught in the Hollingsworth patent and [19] that practiced by the Coleman Company.

Did you ever advise the Coleman Company to completely shutoff the flow of air from around the lower box into the economizer?

A. It seemed to me that the structure shown in the Giwosky patent in effect closed off all the air, because the economizer shown in the patent opposite on the forward side where it vents directly to the room, and I would assume that that cut off the flow of air from the lower part of the casing.

Q. I would like to show you, Mr. Dawson, a letter which is reproduced on page 514 of the record on appeal in this case and ask you if the statements that are set forth in the second paragraph of that letter are similar to what you just described about the Giwosky patent?

A. I think that is correct. Shall I read the paragraph?

Q. Would you, please?

A. "In the drawing, you will note that the second or upper box 10 is closed at its bottom and that it is open only at its forward intake end 11. None of the air from about the lower box is thus able to enter the upper box 10. Instead, the air that enters the upper box 10 is room air passing through the entrance 11 and extending upwardly about the pipe 12 and outwardly through the discharge opening 13." [20]

(Testimony of Horace Dawson.)

Q. On the following page I believe a drawing is reproduced, Mr. Dawson.

A. Yes. On page 516 there is a drawing reproduced, and this seems to be a drawing with the steps shown in the patent.

Q. Could you correlate the numbers, just briefly, as to what you have been talking about?

A. The number 10 is shown in the patent as No. 22, and the entrance 11, I believe, would probably be the part indicated by 20 in the patent.

Special Master: Now, you say that was a letter, Mr. Hoegh?

Mr. Hoegh: Yes, a letter addressed to Mr. Christie dated around April of 1953, I believe. That is correct, is it not?

The Witness: June 4, 1953.

Mr. Hoegh: And the drawing which Mr. Dawson referred to in the record is a drawing which accompanied the letter.

Special Master: In trying to distinguish the two devices?

Mr. Hoegh: That, and pointing out what the Coleman Company was going to do to avoid infringement.

Special Master: To avoid infringement.

Mr. Hoegh: Yes.

Q. (By Mr. Hoegh): Are you familiar with the production models of the Coleman Company in these particular model numbers, [21] Mr. Dawson?

A. I don't believe that I am very familiar with those.

(Testimony of Horace Dawson.)

Q. Did you ever investigate whether or not the statements you have made there were actually true as to the Coleman Company devices?

A. Well, I thought they were true, that this was an accurate statement as to the structure.

Q. Did you observe any tests prior to the time that you made those statements in that letter?

A. I observed some tests that were made prior to taking some depositions in Wichita, and I don't remember what that date was. That probably would be a later date.

Q. Those were the depositions Mr. Christie and I attended?

A. Yes. That would be a later date.

Q. I believe that was in January of 1954.

A. I see.

Q. Would that refresh your recollection on it?

A. Yes. I don't believe that I observed tests prior to writing this, tests made on the structure.

Mr. Hoegh: No further questions. [22]

* * * * *

DEAN OLDS

called as a witness herein by and on behalf of the plaintiff, having been first duly sworn, was examined and testified as follows: [554]

* * * * *

Direct Examination

Q. (By Mr. Hoegh): Mr. Olds, what is your occupation?

A. I am a consulting engineer.

(Testimony of Dean Olds.)

Q. During the period from, say, 1949, through 1952, what was your position?

A. I was in charge of major appliance design of the Coleman Company.

Q. Were you on any of the executive committees of the Coleman Company?

A. I was a member of the board of directors, executive committee, the Long Term Planning Committee, and the New Products Committee.

Q. What is the make-up or who are the members of the New Products Committee?

A. Essentially the major executives of the company, including all the divisions, of course, and other individuals were called in as required.

Q. In the operations of the Coleman Company what are the functions of the New Products Committee?

A. To consider new products, to authorize the design department to proceed with development of those new products, to consider the result of the design department effort, to approve or disapprove. Included in the process, of course, would be a consideration of potential market, cost of tools, [556] capital equipment, et cetera.

Q. When you say the committee included heads of the major departments in the company, would that include the sales department?

A. Yes. At that time Carl Burrows, vice president of sales, often accompanied by Lou Marks, promotional sales manager, and Whelan Richards, who was Mr. Burrows' assistant.

(Testimony of Dean Olds.)

Q. Would someone have been there from the production department?

A. Clarence Coleman, vice president of production, represented production, and brought with him others at times.

Q. Was there an established chairman of the committee?

A. Chairman of the committee normally was Sheldon Coleman, president of the company.

Q. Was Sheldon Coleman a member of the committee?

A. Well, I would say so, yes, sir.

Q. In general, where did ideas for new products come from, Mr. Olds?

A. I would say most frequently from the sales department. Normally, that would not come in the form, perhaps, of a new idea, but rather of a demand and need that they had encountered in the field. I think that would be the normal source of ideas that came to this committee. [557]

Q. Do you recall when the Coleman Company first began to consider a wall heater with a secondary heat exchanger?

A. My recollection is that that would be in the fore part of '51. And by referring to the minutes I find that on Saturday, April 29th, Clarence Coleman, who, as I recall it, had just returned from a trip to the West Coast, discussed the need for a single stud space 35,000 BTU input furnace.

If I may, for just a moment, I would like to call attention to some of the problems that then ex-

(Testimony of Dean Olds.)

isted. We had not been outstandingly successful in competing in this market because we found that the West Coast manufacture was much more flexible than we were. We found ourselves in a similar position as reported by Clarence Coleman at that time. A new unit had come on the market; one of our competitors had produced a single stud space 35,000 BTU unit. The significance of the 35,000 BTU was this: Housing trends had changed again on the Coast. At that particular time a 3-bedroom house seemed to be the most popular thing with the builders, and it happened—or, not happened, but one of the essentials in heating a house of that kind was approximately a 25,000 BTU unit for the bedroom area; a 35,000 for dining room and so forth. So the new house building market at that particular time, he warned us, was going very strongly to this 2-wall unit type of heating requirement; and the 35,000 stud and a half space unit which we then had was not [558] acceptable because of excessive installation costs.

That was the nature of his report at that time.

Q. That was Clarence Coleman's report?

A. Clarence Coleman.

Q. Following a meeting he had out here?

A. He had had a meeting with the West Coast group, yes, sir.

Q. Do you recall that Larry Carney, Jr., was in the sales department here in Los Angeles at that time?

A. I think Larry Carney, Jr. was assistant to

(Testimony of Dean Olds.)

the then branch manager, a chap named Stevens.

Q. Did you at any time receive reports directly from Mr. Carney as to the need for a 35,000 BTU unit? A. Quite frequently, yes, sir.

Q. Referring again to the minutes dated April 29, 1951, Mr. Olds, were any instructions given by the New Products Committee to the Design Department?

A. Yes; which could be summed up in the statement that we must have something that would be strictly competitive with the Holly unit, which would consist—if I may enumerate some of those points—of a single stud space 35,000 BTU unit. We at that time knew of no way of producing such a unit without a heat exchanger, so that, in turn, led to the necessity of some type of heat exchanger.

Q. What happened after the Design Department had been [559] given the go ahead on that?

A. We started work immediately on that development, and in the process conceived the idea that if we placed a register immediately above the wall heater unit itself for the inlet of room air and then exhausted at a point near the ceiling level we would have a better chance, both of cooling the flue and obtaining more circulation.

We produced such a unit, ran preliminary tests on it, enough to satisfy ourselves that it worked satisfactorily, and submitted that back to the New Products Committee.

Q. Do you recall, from reading the minutes, whether that was done at any of these meetings

(Testimony of Dean Olds.)

that are shown there? A. I beg your pardon.

Q. Do you recall, from looking at those minutes, whether that may have been the subject of one of the meetings?

A. I do not find any reference to that particular meeting, no, sir.

Q. Looking to the minutes there for July 12th there, Mr. Olds, could you describe what happened at that particular meeting with respect to the design you had come up with?

A. Well, by this time the proposal which I just mentioned had been made by the Design Department was no longer the subject of consideration.

Q. At some intermediate meeting had this design been discussed in the New Products Committee? [560]

A. Yes, sir, and was rejected by that group.

Q. Do you recall what member of the Committee was primarily the one who caused that to be rejected?

A. No. I think it was Committee action.

Q. Was any particular Committee member primarily interested in seeing that that design was not followed? Any representative from the sales department, for example?

A. I was instructed by the chairman not to continue that development. The sales department expressed the opinion that the unit that we proposed would not be competitive to our competition, Holly, at that time. They offered us reasons; the fact that more plastering work would be required;—in other

(Testimony of Dean Olds.)

words, they expressed a strong preference for our competitive unit-type of design.

Q. At the meeting on July 12th, can you gather from the minutes there the importance of this project to the Coleman Company?

A. Very much so. Again, the situation was the question of priority of design effort, particularly, between two products which we felt desirable for this market; the one which we have been discussing, the wall heater with extended heat exchanger; and the other, a shallow low-cost master furnace which had top priority up to this point. It was more or less explained in these notes—it was decided, and particularly Sheldon Coleman, who made a study of the subject, [561] suggested to the Committee that top priority be given to the wall heater line at that time. In other words, this is the point at which we were given not only a go ahead, but quite a push.

Q. Did the New Products Committee know at that time that the Holly Manufacturing Company had applied for a patent on its wall heater?

A. Yes, I believe so. At a previous meeting—that is the meeting which I referred to when the 2-register structure was submitted—the Design Department, after the decision to abandon that structure, which we in the Design Department felt would not infringe a possible Holly patent. Our reasons were that we had made a search of heat exchangers in general. We felt that a heat exchanger of that type was obviously old.

(Testimony of Dean Olds.)

At that meeting I recall making a remark, "Well, what happens if we go ahead on this structure which is so close to Holly and Holly does obtain a patent on that particular structure?"

Q. Was discussion of the group directed to that problem?

A. Very definitely, by my remarks, yes, sir.

Q. What was the decision?

A. The decision was made the same. The chairman of the Committee not only instructed me to go ahead, but when I [62] asked what situation we might be in in the event of an issuance of the patent to Holly, he told me that he would take care of that matter when it came up.

Q. This was Mr. Sheldon Coleman?

A. Sheldon Coleman, chairman of the Committee, yes.

Q. Going on to the minutes again, Mr. Olds, on November 21st, would you state what had happened in the Coleman Company's development program by that time?

A. November 21st?

Q. Yes.

A. By this time the design had been finalized in so far as the Design Department was concerned. We were ready to release from design. The model was submitted to the New Products Committee and, as noted here, was received by them and was approved by them.

Q. What did that device look like? How did it function and what were its parts?

A. To the best of my memory it would be a

(Testimony of Dean Olds.)

device very similar to the drawing shown here.

Q. Like the Holly one? A. Yes.

Q. By "the drawing shown here," you are referring to a chart on the blackboard there, is that correct?

A. Yes. That is a Coleman unit, is it not?

Q. Yes. [563] A. It looks so to me.

Q. Was the Coleman unit submitted to the American Gas Association for approval at that time?

A. Yes, sir. Immediately following that meeting on approval, our normal practice would be to submit to AGA for test and approval. Normally we allowed a 60 to 90-day period before we started tools. My recollection in this case is that we started some tools at about the time of submittal to AGA; our reason again being that we definitely wanted to produce before the heating season of '52. [564]

Q. Can you ascertain from the minutes subsequent to that date whether or not you went into production on any of the components for these heaters?

A. My recollection is—if you will pardon me, I will look at the minutes here a minute—there is mention of the subject.

I might comment that in some of these subsequent meetings between these two periods there are established target dates for production of the various units in this line.

Q. Directing your attention to the meeting——

A. I beg your pardon?

(Testimony of Dean Olds.)

Q. I was going to direct your attention to the meeting of March 1952.

A. March 5, 1952. Now your question, sir?

Q. Whether there was anything in that which would show that you were building up components to go into these wall heaters.

A. Yes, I would say there is. It is more the nature of the wording of this particular report that supports that. Lyn Hibbs, as I recall it, was assistant to Clarence Coleman, in other words, assistant to vice president of production, you will note that he is recommending at this time that schedules be correlated so that the heat exchange, lower heat exchange units of the economizer model be produced jointly with the economizer. In fact, he goes further and recommends [565] that a bank of economizers be built in advance.

Q. Would that have included a bank of combustion chambers as well?

A. That's right. That is the A-19. I beg your pardon. Did I refer to the economizers there?

Q. Yes, you did.

A. It was my intention to say the combustion chamber proper, which was the A-19.

Q. Was there anything in that meeting relating to the economizer itself?

A. Yes, sir. 68 310 economizer, the group was advised that this item was required for Model 67 and 68 gas wall heaters with A-19 ceramic coated combustion chamber, and therefore should be produced at the same time we are producing 67's and

(Testimony of Dean Olds.)

68's. Production date of August 11, 1952, was approved for this item.

At this time of course we are definitely in the tool-up stage, have to be.

Q. During this time the Coleman unit was at the American Gas Association, is that correct, Mr. Olds?

A. Yes, sir, the unit was on test approximately one year at the American Gas Association.

Q. When the Coleman Company did obtain approval of its wall heaters, these models 64, 67, 68 and 69, were those approved as a unit? [566]

A. Yes. I think you refer now to whether or not the heat exchanger was a separate portion of the unit?

Q. Yes.

A. No; they were approved as a combination unit.

Q. By the American Gas Association?

A. That's right. They had to be assembled together at the dwelling. Must be used together.

Q. During any of this time, or shortly after this time when you got approval on your unit, Mr. Olds, did you talk to Mr. Johnson from the Holly Manufacturing Company?

A. Yes, sir, I received a copy of the Holly patent from Mr. Johnson in August of '52. I came to the Coast in the forepart of September to discuss the possibility of obtaining a license from Holly.

Q. And you talked to Mr. Johnson about that specific subject?

(Testimony of Dean Olds.)

A. I talked to Mr. Johnson on that, yes, sir.

Q. What was the purpose of your meetings, specifically?

A. To try to obtain a license.

Q. Were you making inquiry of a license, as to the possibility of a license?

A. Yes, and perhaps stronger; if I could carry through the negotiation, I was authorized to do so.

Q. What was the result of that meeting, Mr. Olds?

A. Indefinite. Mr. Johnson told me that he had not [567] given the matter consideration, full consideration, at that time. He neither rejected the possibility of obtaining a license, nor did he tell me that he thought it would be possible or likely.

Q. Do you recall about when the American Gas Association did approve these four models, Mr. Olds?

A. I again have tried to check notes on that subject. From the records of the American Gas Association I am told that it was prior to September 20, 1952. I gather from the earlier conversation that subject has not been definitely settled.

Q. Mr. Olds, I believe you stated you were on the executive committee of the Coleman Company—

A. That is correct.

Q. —during this period we are discussing?

A. I am sorry?

Q. During the period we are discussing here?

A. That is correct.

Q. 1950, '51 and '52?

A. Yes, sir.

Q. What is the function of that board?

(Testimony of Dean Olds.)

A. To act for the board of directors between meetings of the directors. [568]

* * * * *

Mr. Hoegh: Mr. Johnson, please.

J. STANLEY JOHNSON

called as a witness by the plaintiff, being first duly sworn, was examined and testified as follows:

Special Master: Will you state your name and address, please?

The Witness: J. Stanley Johnson, 2062 Pinecrest Drive, Altadena, California.

Direct Examination

Q. (By Mr. Hoegh): Mr. Johnson, what is your present occupation?

A. My present occupation is a vice president of the Siegler Corporation.

Q. How long have you had that position?

A. I have had that position since Holly was merged into Siegler in November of 1955.

Q. How long had you been associated with Holly Manufacturing Company prior to that time?

A. Well, I founded Holly Manufacturing Company in 1938. [722]

* * * * *

Q. (By Mr. Hoegh): Mr. Johnson, after the patent was issued did you ever discuss with representatives from the Coleman Company whether you would grant them a license under the patent?

A. I did.

(Testimony of J. Stanley Johnson.)

Q. Which representative of the Coleman Company was that? A. Mr. Deans Olds.

Q. And this was a meeting that took place in September of, roughly, 1952? [782]

A. That's correct.

Q. Did you tell Mr. Olds whether or not you would grant a patent, or a license under this patent? A. I told him that we would not. [783]

* * * * *

Redirect Examination * * * * *

Q. (By Mr. Hoegh): Mr. Johnson, did the Holly company ever consider the possibility of cutting off any air flow from the space around the lower box into the economizer or secondary heat exchanger?

A. We considered that and the possible result.

Q. Did you think it was possible to do that?

A. We didn't think we could do it and meet A.G.A. tests? [843]

* * * * *

WALTER M. BERRY

called as a witness by the defendant, being first sworn, was examined and testified as follows:

Special Master: Will you give me your name and address, please?

The Witness: Walter M. Berry, B-e-r-r-y; 2160 Lennington Avenue, West Los Angeles. [859]

Direct Examination

Q. (By Mr. Stanbury): Mr. Berry, what is your occupation, sir?

A. I am a consulting gas engineer.

(Testimony of Walter M. Berry.)

Q. Will you give us an account of your academic and professional background. Just take the time and give us a brief autobiography of those matters, please.

A. I graduated from the University of Oregon, having majored in chemistry and engineering. Immediately after graduation I went with the Portland Gas & Coke Company in Portland, Oregon, as an engineer and chemist. I was with them for eight years.

Following that, I went to the United States Bureau of Standards in Washington, D. C. as a gas engineer. When I left there seven years later I was chief of the section in gas engineering.

I left the Bureau to come to California as executive engineer for an organization called the California Gas Research Council, an organization sponsored by the California State Railroad Commission and supported by all the California gas companies.

After three and a half years with them, I went into consulting work and, with the exception of three years when I was in the procurement section of the Air Force, I have been doing consulting work in almost every branch of the [860] gas business. However, in recent years most of my work has been in the design and testing of gas appliances. And I represent local and out-of-state manufacturers who send their appliances to the American Gas Association laboratory for approval tests.

Q. Have you done any writing on your subject?

A. Yes. I am the principal author of a number

(Testimony of Walter M. Berry.)

of Bureau of Standards publications, and I wrote extensively for gas journals a number of years ago.

Q. And on behalf of the Coleman Company have you made some efficiency tests of a Coleman wall heater Type Model 67? A. I have.

Q. When did you make these tests, sir?

A. The first series of tests was made at a private laboratory on May 1st and 2nd.

Q. This year?

A. This year. The second series was made at the Coleman plant here in this city on September 3rd and 4th. And a later series of tests was made on September 15th and 16th.

Q. All right. Now, what standard did you use to test the efficiency of the heater?

A. We had the appliance set up in a test board exactly the same as the test board used by the American Gas Association laboratory, with the probable exception that we did not have thermocouples in the back of the economizer section. [861]

Q. All right. What standard of efficiency did you apply?

A. We used the method used by the laboratory by adjusting the gas appliance to its normal rating as close as possible, using wet meter for measuring the gas, and otherwise trying to maintain uniform conditions throughout the series of tests. We measured the gas, of course, and determined the heat loss 15 minutes after starting the heater; and we determined the carbon dioxide in the products of combustion taken at a point six inches below the

(Testimony of Walter M. Berry.)

top of a four-inch flue, insulated flue I might say, and measuring the temperature at the same time. From tables supplied by the laboratory, we determined from those two values the percentages of heat loss in the products of combustion and the difference in the amount of heat supplied to the appliance; and the heat loss in the products of combustion is considered the efficiency of the appliance.

Q. In your answer you referred to "the laboratory" twice. What laboratory do you mean?

A. The American Gas Association testing laboratory.

Q. Is this formula as you have described having used here the AGA formula for testing efficiency?

A. It is.

Q. Now, did you make efficiency tests on this heater in its normal operating condition? [862]

A. We did.

Q. For comparative purposes, did you make efficiency tests of this heater with the air in the wall spaces around the lower box sealed off so that none could get into the economizer? A. We did.

Q. Did you make tests of the heater efficiency with and without an appliance called a chute in it?

A. I did.

Q. This makes four tests, four kinds of tests all together, does it not? With and without the chute, back wall air sealed off and not sealed off?

A. That's right.

Q. All right. Now, when you made the first se-

(Testimony of Walter M. Berry.)

ries of tests on May 1st and 2nd of 1957, did you at that time test with the chute?

A. We did not.

Q. Only without the chute?

A. That's right.

Mr. Stanbury: May I use the blackboard here, your Honor.

Special Master: Yes.

Mr. Hoegh: Just a moment. While you are getting into that—I know what is developing here and I think that the plaintiff—well, I know the plaintiff doesn't think this [863] line of inquiry is proper in this proceeding. These are matters which I understand Mr. Berry will testify to relating to the efficiency of these heaters with these various modifications. And during the contempt hearing the finding of the trial court there was that:

“Prior to the addition of the chute the defendant's wall heaters——”

These are the infringing models——

“such wall heaters were constructed so that the so-called economizer was adapted to receive air flowing upward outside the lower box and inside the wall as taught and claimed by the patent in suit. When such wall heaters were installed and placed in operation a substantial quantity of air entered the economizer of such wall heaters from around the back and sides of the lower box. The quantity of air entering the economizer from around the back and sides of the lower box of defendant's wall heaters previously found to in-

(Testimony of Walter M. Berry.)

fringe was of sufficient quantity to affect materially the efficiency and operation of such wall heaters."

I don't think that any information that Mr. Berry might testify to as to what the situation was as to those wall heaters has any place in this proceeding. Those are matters which have been thoroughly gone into by the trial court and [864] resulting in that particular finding.

Mr. Stanbury: Your Honor, the question of the contribution of this infringing air to this heater has never been tried anywhere. If I am wrong in that counsel need only show us some finding. It's never been tried.

The testimony was given here that this heater could not be made to function without the infringing air, and we are undertaking to prove just the opposite. And one of the elements in determining what a reasonable royalty is is certainly the value of the contribution of the infringement to the invention.

So, I submit that the record would have a vacuum in it if we were not allowed to show what effect this had. I repeat, it has never been tried. It's never been material.

We have, furthermore, this extraordinary situation that is a matter of record in this case. The figures originally used—and I indict both sides in saying it, and I hasten to say I have no credit coming to me as change of counsel, as the facts came out, because the error was on the part of the technical advisers and not the lawyers—but the

(Testimony of Walter M. Berry.)

original decision was based upon data which is now known to be sadly erroneous, and, according to undisputed testimony—if there is any contradiction the plaintiff can introduce it, but up to now it hasn't been introduced at all—it was on data that was mistaken because the inside source of non-infringing [865] air was overlooked by both sides, and the formula used by Mr. Landsberg included non-infringing air with the infringing air. And while on the contempt hearing no expressed finding was made on this subject, the judge's comments show that he realized—and one can read the arguments and see—not only was there no evidence to the contrary, but not even any argument made to the contrary. So that we are now concerned, I respectfully submit, with this issue, if no other: Is it true that we needed the infringing air to make this heater function? If we did, it is a very different situation than if—well, it is like, something like water leaking into a boat that you don't want and can't use. And I don't know how your Honor or anybody else can fix a reasonable royalty in this case without knowing that, among other things, whether it's any good to use or not.

Mr. Hoegh: Your Honor, I am sure it is not the function of this proceeding to concern itself with error as it may have been made in the trial of this case by the defendant. The plaintiff submits no such errors were made, because of the manner in which these heaters were constructed, and that the defendant put on the best case possible.

(Testimony of Walter M. Berry.)

And in spite of that the trial court found that with the devices manufactured by the defendant the defendant knew about this patent and it still decided to go ahead and willfully infringe. Matters of efficiency were presented to the trial court to enable it [866] to ascertain the manner in which the wall heaters manufactured by the defendant functioned, and despite that testimony the trial court held that those heaters were adapted to function in the same way as taught by Hollingsworth. So that those matters have been thoroughly gone into in the trial court as to these particular problems. We don't have any question about them now. Those questions are laid at rest.

Mr. Stanbury: Your Honor may be under the impression that the Landsberg testimony, about which Mr. Landsberg honestly retracted, saying if there was this inside passage—and that's an indisputable matter, it has not been disputed, and can't be disputed—his data meant nothing. But your Honor may be under the impression that his test had to do with efficiency. It didn't at all. When Mr. Hoegh says the question of efficiency has been gone into here, it has never been gone into in any way directly or indirectly in the entire proceeding. Mr. Landsberg's testimony was solely concerned with what percentage of infringing air got into that economizer.

And there have been general statements that you have got to have it to have an efficient heater; general statements, such as by Mr. Johnson, that

(Testimony of Walter M. Berry.)

you can't make the heater without this infringing air, or words to that effect. But there has been no trial of that issue.

I will go a step further. Let us assume that Mr. Landsberg's original data was correct—which is an absurd assumption; it is grossly in error, just way off—but let [867-868] us assume that it was correct and that instead of three per cent 20 per cent of air in the economizer was infringing air. Your Honor has nothing in the record to guide him at all to decide whether that contributed to the efficiency or the cooling of the walls of this heater, or how much; and I repeat that if it appeared that whether that is 20 per cent or three per cent, if we can't use the heater without the infringing air, it wouldn't function, that is one thing, and if it makes no difference whether it be 20 or three per cent in the function of the heater, that is another thing. And I certainly don't understand how your Honor is going to decide a reasonable royalty in this case without knowing this. In fact, it's one of the major points, we submit, not only material but one of the major points on that issue.

Mr. Hoegh: Your Honor, this thing of saying there is nothing in the record on that point, I think, goes right in the face of the finding that I just read to the court. The court did consider this very matter of whether or not this particular heater functioned in the way that the patented heater functioned, and it made findings to that effect and made findings that that air affects materially the

(Testimony of Walter M. Berry.)

efficiency and operation of such wall heaters. [869]

Also at page 344 of the record I wasn't referring to Mr. Landsberg's testimony, I was referring to the defendant's testimony, about the efficiency of these heaters with the air space blocked off, and with it open, and all this same sort of thing that is now being proposed. Mr. Kice testified about it, Mr. Petroff testified about it. There are several exhibits in the record which show the basis of these tests, and I think that the matter was thoroughly explored by the trial court, and the trial court despite that voluminous evidence by the defendant decided that that was erroneous.

As Judge Bone pointed out, the matter was the subject of considerable dispute and the trial court did not choose to follow the testimony presented by the defendants.

Special Master: As I understand it, Mr. Stanbury, one of the elements in ascertaining the damages which may be the reasonable royalty, one of the things that has to be considered is the contribution of the infringement to the amount of damages?

Mr. Stanbury: Yes, sir. The extent of use, in other words.

Special Master: Of course, this evidence to which Mr. Hoegh refers was never introduced for that purpose.

Mr. Stanbury: It wasn't even introduced at all. But if it was, that wasn't even material.

(Testimony of Walter M. Berry.)

Special Master: It went to the question of infringement? [870]

Mr. Stanbury: That is correct. Such as there was as to percentages went to the question of infringement and principle of operation. The degree of contribution, the extent of use, has never been material in this case up to the time of now fixing damages.

Special Master: The objection will be overruled. I think it should be in the record, in any event, so let's go ahead and put it in the record, and then you can tie it in in your arguments as to how much weight should be given to that evidence in determining the damages.

Mr. Hoegh: Your Honor, Judge Swain once cautioned me about arguing after he ruled, but I would like your indulgence in just one sentence: "A careful consideration of the entire record"—reading from Judge Bone's opinion—"convinces us that all of the essential parts and elements of appellee's device have been, with immaterial variances, faithfully copied by appellant in constructing its various models here claimed to infringe appellee's patent."

Special Master: I am not questioning that as far as infringement goes. What I am interested in is the defendant's contention that the contribution of the infringement bears on the amount of damages which should be determined.

You may find a case where the infringement is such a small part of the contribution to the damages that a royalty will be very low. You may find a

(Testimony of Walter M. Berry.)

case where the device [871] wouldn't work at all without the infringing portion, so that the damages would necessarily be much larger, particularly if it is based on a reasonable royalty.

Q. (By Mr. Stanbury): On the first test, May 1st, Mr. Berry—"Not Sealed"; that means with the air free to go wherever it will go in the normal operation of the heater, does it not? A. Yes.

Q. And "Sealed" means that the apertures by which the air could get from the wall spaces around the lower box into the economizer have been closed off? A. Yes.

Q. All right. Now, on May 1st what was the efficiency of this heater, not sealed and no chute?

A. 66½ percent.

Q. You didn't take it with the chute?

A. No.

Q. With this air from the back wall spaces sealed off from the economizer, what was the percentage of efficiency? A. 66½ per cent.

Q. You didn't take it there, either, without the chute? A. No.

Q. September 1st and 2nd, or 1st, was it? [872]

A. September 3rd and 4th.

Q. I beg your pardon.

With the heater not sealed and with the chute in place, what was the efficiency?

A. With chute, unsealed, 66 per cent.

Wait a minute now. Did you ask me with chute or without chute?

Q. I said no chute, no seal.

(Testimony of Walter M. Berry.)

A. No chute, no seal, 66 per cent.

Q. That's right.

Sealed and no chute, what was the per cent?

A. 66½ per cent.

Q. Not sealed and with the chute, what was the per cent? A. 66 per cent.

Q. Sealed and with the chute, what was the per cent? A. 66 per cent.

Q. September 15th you took it one day with the chute and another day without the chute, did you not? A. Yes, we did.

Q. How long does it take to run all the tests that you did? About how long? I don't mean to the minute.

A. Well, it took us all day on September 15th, with the time that we got to run the test. Actually the test itself took two hours from the time we lighted the heater until [873] we started our readings. Then we cooled the heater down with a blower for more than a half hour, probably closer to an hour, and started the other test. So there was an interval there. Actual testing time of about six hours.

Q. I was getting at the fact that you have to have it cooled off before you can change the chute situation.

A. Yes. We ran the chute on Monday morning. We ran both of these tests without the chute on Sunday.

Q. September 15th was a Sunday, was it not?

A. Yes.

(Testimony of Walter M. Berry.)

Q. And on that day did you not take it with the chute, but without the chute?

A. Without the chute.

Q. What was the efficiency of the heater without the seal and without the chute on September 15th?

A. $66\frac{1}{2}$ per cent.

Q. And with the seal and without the chute?

A. $66\frac{1}{2}$ per cent.

Special Master: Were all of these tests run on the same heater with putting the chute in and taking the chute off?

The Witness: Yes.

Special Master: You didn't have one heater with the chute and another one without the chute?

The Witness: No. We installed the chute later.

Q. (By Mr. Stanbury): All right. On September 16th you [874] took it with the chute and not without the chute, is that right? A. Yes.

Q. What was the percentage without the seal, with the chute? A. 66.3 per cent.

Q. What was it sealed and with the chute?

A. 66.2 per cent.

Q. Can you determine these percentages with that degree of precision and avoid human error in it, that is, down to one-tenth per cent?

A. No. I don't think that anything closer than a half per cent has any significance for the reason that with an ordinary gas analysis apparatus that we call an Orsat, it is impossible to read closer than one-tenth of 1 per cent, and that represents a half a per cent in efficiency.

(Testimony of Walter M. Berry.)

Q. What was your conclusion after these tests, Mr. Berry, as to whether the efficiency of this heater was affected—withdraw that. I will put it another way. What was your conclusion from these tests as to whether air from the wall spaces around the lower heater getting into the economizer had any effect upon the efficiency of the heater?

A. It made no difference.

Q. Was that true whether you put it in there or kept it out? [875]

A. It made no difference in efficiency.

Q. With or without the chute?

A. The same is true.

Q. How do you account for the fact that this heater performed at an efficiency of 66 or 66 and a fraction per cent, rather than 70 per cent, both with and without the back wall air getting into the economizer?

A. I think this heater represents more nearly a commercial product, which you probably find in actual use. There was no attempt made to get a very fine refinement of adjustments, such as is necessary to pass the efficiency test at the AGA laboratory.

It is like getting a fine tuning on a carburetor to get these fine adjustments, because there are very, very few heaters that more than just barely get by.

Q. You were interested in making a comparative test here, rather than an absolute test, were you not?

A. That is true.

(Testimony of Walter M. Berry.)

Q. Did you consider that the tests which you made were good reliable comparative tests of the efficiency of this heater with and without the air from around, side and back of the lower box and the wall spaces getting into the economizer?

A. I feel very confident that this represents a very [876] accurate determination of the relative performance under the different conditions.

Q. On these occasions did you take wall temperatures of this heater? A. Yes, we did.

Q. You did that by means of thermocouples?

A. We determined the temperatures with an indicating potentiometer.

Q. Where did you have your thermocouples placed?

A. They were placed in exactly the same locations prescribed by the laboratory, and all the way—spaced four inches apart up and down from the floor up to the header plate, and in front from the header plate up to the top of the economizer.

Q. You mean one in every four-inch square?

A. Yes.

Q. And that would be on the back wall and also the side wall and around the heater box?

A. Also two thermocouples on each stud, on each side.

Q. When you take those readings, do you take the room temperature with each reading?

A. No. We observe the room temperatures at the start and at the end of our set of readings.

(Testimony of Walter M. Berry.)

Q. Then you record the temperature at the thermocouple? [877] A. Yes.

Q. Before taking those temperatures, how long had the heater been operating?

A. Two hours.

Q. Did you take these temperatures according to the AGA standards, or some other standard?

A. According to the AGA standards.

Q. That is, you gave it the same test that it would be given in an AGA laboratory?

A. Yes, sir, I would say that they represent the AGA tests.

Q. Did you record the temperatures?

A. We did.

Q. Do you have your data here? A. I do.

Q. For all the days you did it? A. Yes.

Mr. Hale: We would like to have copies of these, Mr. Stanbury, ahead of time, like we did with our exhibits.

Mr. Stanbury: I know. I have done it every time up to this one, and we will have to have copies made for you.

Special Master: Were copies of those other exhibits made over the week-end?

Mr. Hale: Yes, sir, your Honor. Let me get them out while I am thinking of it. [878]

Special Master: Could you go ahead with some other part of the testimony?

Mr. Stanbury: I am almost through with this witness.

(Testimony of Walter M. Berry.)

Special Master: Would you like to take our recess now and you can go over it?

Mr. Hale: Perhaps he can finish with the witness and then we can look at it over the recess.

Q. (By Mr. Stanbury): There are rectangles here that show left, rear, and right. Those are back walls and side walls, are they?

A. Yes, they are.

Q. And the front, that is the front wall, in front of the economizer? A. Yes.

Q. And the figures you have written down, are those actual temperature readings at the points indicated? A. They are.

Q. And the points indicated are four-inch squares over the area shown?

A. Except for the side, on the studs.

Q. On the stud spaces—what is the difference on the stud spaces?

A. I think they are about two inches apart.

Q. Does that data correctly show the temperature reading at the points indicated on the days indicated, and with the [879] condition as to whether sealed or unsealed, chute or no chute, as indicated? A. They do.

Q. And the temperature of the room on each sheet, does that accurately record the temperature of the room? A. It does.

Q. Were the test conditions better on any one day than any other day?

A. The tests on the Sunday and Monday morning on the 15th and 16th were probably run under

(Testimony of Walter M. Berry.)

better conditions in that the heater was not subjected to outside influences such as drafts and movement of air. [880]

Q. Well, take the May tests. Under what conditions were the May tests taken?

A. That test was not conducted under most favorable conditions, in that due to the height of the heater and the stack on it the heater was actually part of the way out of the building; within an inclosure formed by the partly opened door, and we didn't consider that that condition was entirely favorable.

Q. And on September 3rd and 4th what were the conditions?

A. Those were conducted under somewhat better conditions; however, there was considerable traffic in the neighborhood of the heater. The outside doors of the factory building, the warehouse building, were open most of the time, and there was considerable draft movement of air in the vicinity here.

Q. What kind of doors are you talking about?

A. Big factory doors used for loading and unloading.

Q. Doors over a loading platform, huge doors you are talking about, are you not? A. Yes.

Q. And was the factory activity going on at that time? A. It was, yes.

Q. What about September 15th? What day of the week was that? [881]

A. That was on a Sunday, and we could keep the

(Testimony of Walter M. Berry.)

doors closed, and conditions were generally more favorable to a good comparative test.

Q. What about September 16th, Monday? How were the conditions?

A. The doors were open again, but there it was actually a dull day and the temperature didn't vary too much; and we considered the comparative tests, since they were run fairly close together, were reasonably accurate and satisfactory.

Q. What effect, if any, does the temperature change in the day or the presence of a draft have on taking temperatures, if any?

A. Any change in temperature of the room will cause a slower change in the heater itself, due to the heat capacity of the walls and heating element. So that if you have a sudden drop in the room temperature your heater can't catch up with the change.

Q. You are talking about a time lag between temperature changes of the room and temperature changes of the heater? A. Yes.

Q. And what was the actual input on the September 3rd and 4th test, Mr. Berry? [882]

A. 35,500 BTU.

Q. What was it on September 15th and 16th?

A. 34,900.

Q. What was it on September 15th and 16th?

A. Oh, I made a mistake. Did you ask for September 15th?

Q. Start over again. I don't know whether you were giving me the right answer or not, except on the first question I asked you. So I couldn't cut

(Testimony of Walter M. Berry.)

you if you did make a mistake. You were right on September 3rd and 4th, 35,500. Is that right?

A. Yes.

September 15th—

Q. Well, let's go back a minute. September 3rd and 4th was 35,500 BTU, as you said, wasn't it?

A. Yes.

Q. What was it on May 1st? A. 35,200.

Q. And what was it on September 15th and 16th?

A. On September 15th, 34,800; and on September 16th, 34,900.

Mr. Stanbury: I will offer this data in evidence as Defendant's next in order, and ask leave to take them at the noon recess and have copies made for Mr. Hoegh and Mr. Hale.

What are you doing there? What did you do there? [883]

The Witness: I changed—this was done on May 1st. This BTU was actually made on May 1st, this determination.

Mr. Stanbury: What did you do? Just change 2 to 1 or what?

The Witness: Yes.

Mr. Stanbury: What was on May 2nd? What did you have May 2nd down there for?

The Witness: May 2nd?

Mr. Stanbury: Did you just change May 2nd to May 1st? I didn't see what you did with your pencil. That is all I am asking you, Mr. Berry.

(Testimony of Walter M. Berry.)

The Witness: Let me go back here. This test of test No. 1-A and 2-A, was made on May 1st.

Mr. Stanbury: All right.

The Witness: And these BTU's were made on May 1st.

Mr. Stanbury: What did you have, May 2nd?

The Witness: Yes.

Mr. Stanbury: Was it an error, or what?

The Witness: An error.

Mr. Stanbury: All right.

Mr. Hoegh: Your Honor, could we defer consideration of this until after——

Special Maaster: Would you like to check them over before I rule on the admission of them?

Mr. Hoegh: Yes, please. [884]

Special Master: Let's take our morning recess, and you may look them over, and we will take care of it after the recess.

(Short recess.) [885]

Q. (By Mr. Stanbury): One thing I forgot to ask you, Mr. Berry. On the May 1st, and September 3rd and 4th tests, do the bottom lines of temperature give wall temperatures?

A. No. I think those temperatures are influenced by direct radiation. They are down with the level of the burner and combustion chamber.

Q. Were the thermocouples from which you got the readings on the bottom line in the May 1st, September 3rd and 4th tests, were they in the wall space between the heater and the wall?

(Testimony of Walter M. Berry.)

A. No. They were down below the level of the heater.

Q. Down below where the space between the heater and the wall starts? A. Yes.

Mr. Stanbury: That is all.

Special Master: What is the maximum temperature for those walls by the AGA regulations?

The Witness: 90 degrees above room.

Special Master: If the room was kept at 72, for instance, then the maximum would be 162?

The Witness: That's right.

Special Master: What would be the dangerous stage of a hot spot in a wall? How much leeway is there between the 90 above room temperature and the combustion stage?

The Witness: That is a debatable point. [886]

Special Master: It has never been determined?

The Witness: There has been a tremendous lot of work done on it, and it depends on the time of exposure to a hot zone, on the composition of the material; different kinds of wood char or flame. There has been a tremendous lot of work done on it, but nothing specific can be stated on that point.

Special Master: Have they found any temperature at which, say, the most combustible would ignite?

The Witness: Well, it can be comparatively low. In some cases three or four hundred degrees might cause charring and there may be eventual combustion.

Special Master: At least there is quite a gap

(Testimony of Walter M. Berry.)

between the 90 above room temperature and any possible combustion stage?

The Witness: There is. 90 degrees above room is assumed to be safe under all conditions.

Special Master: Under all conditions?

The Witness: All conditions, yes.

Special Master: Pardon me for the interruption, Mr. Hoegh.

Now, shall we rule on the admission of these? Do you have an objection, or would you like to do your examining first?

Mr. Hoegh: I would like to. Unfortunately, I think we may have gotten them out of order, Mr. Berry. [887]

The Witness: It doesn't make any difference about that.

Mr. Hoegh: Do you suppose we should label them with some exhibit number for each, Mr. Stanbury?

Mr. Stanbury: Anything the court thinks.

Special Master: Well, let's get them back in order, then, and we will mark them for identification so they can be referred to by exhibit number.

Do you have those back together now?

The Witness: Yes.

Special Master: Let me have them so I can mark them.

Mr. Hoegh: Perhaps it would be best to mark each sheet in the event I have comments to make about them.

(Testimony of Walter M. Berry.)

Special Master: The one group is marked Test No. 1. Is that sufficient identification?

Mr. Stanbury: It is for me, your Honor.

Mr. Hoegh: I believe that other sheets have other test numbers.

Special Master: And then the other one has Test No. 1-A up in the upper right-hand corner.

Mr. Stanbury: I am willing to mark them in red, I have a red pen here, on the date, and that will simplify it. For easy reference that will be very good.

Special Master: The one that is marked Test No. 1 will be Defendant's Exhibit V for identification, and the one that is marked Test No. 1-A will be Defendant's Exhibit W for identification. [888]

If you have a red pencil, how about marking each sheet with a red number, and then we can refer to them by exhibit number and sheet number.

Is this another group you have marked?

The Witness: That is a third series.

Special Master: Did you offer this one, also?

Mr. Stanbury: Yes.

Special Master: It shows Test of Model 67 Coleman Wall Heater.

Mr. Stanbury: I offered them all.

Special Master: That will be Defendant's Exhibit X.

(The exhibits referred to were marked as Defendant's Exhibits V, W, and X for identification.)

(Testimony of Walter M. Berry.)

Mr. Stanbury: Shall I mark them on the date for easy reference?

Mr. Hoegh: If there was one for a date, that would be fine, certainly.

Mr. Stanbury: The Court said to mark them with the number in red——

Mr. Hoegh: He was referring to the page references. If you just put a page number on each sheet so that he can refer to it as Exhibit V-1 and V-2.

Mr. Stanbury: Very well.

Special Master: Here is the other one, Mr. Hoegh.

Mr. Stanbury: I will put numbers with circles around them in red, just numbers, and I will start with May 1st.

Special Master: That will be fine.

Mr. Stanbury: 15 pages in all.

Cross Examination

Q. (By Mr. Hoegh): Defendant's Exhibit W begins with page 1 and goes through page 5; Defendant's Exhibit V begins with page 6 through page 11; and Exhibit X, pages 12 through 15.

Mr. Berry, when you ran any of these tests that you have testified to, who was present besides yourself?

A. During all the tests, Mr. Grubb, chief of the laboratories of Coleman, assisted me, in making the set-up, installing the heater, and connecting my potentiometer wires to the various points, various 'couples in the wall. I made all the readings and entered the results.

(Testimony of Walter M. Berry.)

Q. Where were the tests run?

A. The first series was run at a private laboratory at 3234, I think the address is, Olympic Boulevard.

Q. Whose laboratory is that?

A. That is owned by Charles Cook.

Q. And after that where was the place?

A. The next two series were run at the Coleman plant in the industrial district in East Los Angeles.

Q. Was anybody besides Mr. Grubb there at any of these tests? [890]

A. There were various workmen constantly around, except on Sunday morning when we were there alone. Mr. Newton was there at various times. He had no part in the actual running of the tests.

Q. Were any people from Holly or Siegler there? A. No, they were not.

Q. Do you know whether or not they were asked to be there? A. I do not know.

Q. I could tell you that I wasn't there, and you would agree with that statement, would you not, Mr. Berry? A. Yes, I would.

Q. What wall heater model number did you test? A. 67.

Q. What equipment or what components did it have as you tested it? Did it have an economizer?

A. It had an economizer, yes.

Q. Are you familiar generally with the kinds of wall heaters manufactured by Coleman?

A. I think I have only seen this one particular model. I have seen a later model, a more recent

(Testimony of Walter M. Berry.)

model submitted to the laboratory, a very much taller heater. But in this particular series, it is the only heater I have seen. [891]

Q. This one that you referred to as being very much taller, it doesn't have an economizer, is that right? A. That's right.

Q. Does it stick out into the room quite a bit further, too?

A. I would get that impression by looking at the casing, that it does.

Q. What else did this heater have besides an economizer?

A. Well, it is a complete heater ready to set into a wall, and it had a header plate and flue connection, and then the economizer on top of it.

I don't think that there is anything very distinctive about it from other heaters in other respects, except for the economizer.

Q. Did you have a flue on it?

A. We tested it with and without a flue. We tested it with a flue for heat loss, an insulated flue, tested in a similar manner as tested by the laboratory. A four-inch stack with thermocouples six inches below the top. And the temperature measurements on the casing were made without any flue.

Q. Temperature measurements in the wall, is that what you mean? A. That's right.

Q. Do you know whether it was a three-foot economizer [892] or a four-foot economizer?

A. Frankly, I didn't measure it. I couldn't say.

(Testimony of Walter M. Berry.)

That information would have to be supplied by Mr. Newton.

Q. Is it just one that you tested, just the one economizer?

A. Just the one economizer, yes.

Q. Do you know anything about Coleman's own testing laboratory, Mr. Berry?

A. I do not. Only from hearsay.

Q. Mr. Grubb is in charge of it, as far as you know, though, is that correct?

A. So I understand.

Q. Do you know how large a staff he has?

A. Only by hearsay.

Q. Generally in your experience, Mr. Berry, what is the function of a laboratory maintained by a manufacturer?

A. Development and testing of all their products.

Q. When you do work with the AGA laboratory here in town, prior to that time do your clients tell you whether or not they have tested these wall heaters?

A. Most of the larger manufacturers do have certain testing facilities. The smaller ones don't and rely upon somebody like myself, or one of the other consultants, to give their appliances a preliminary check, and if it doesn't seem to meet the laboratory requirements, they have to make a [893] modification.

Q. When you take an appliance to a laboratory, you are fairly sure it is going to pass, aren't you?

(Testimony of Walter M. Berry.)

A. When I turn it over to the AGA, yes, I feel fairly confident that it will meet the requirements.

Q. How many appliances are submitted to the AGA in Los Angeles, or in Cleveland, in a year; do you know, Mr. Berry? A. I don't know.

Q. 5,000, 6,000?

A. I think that figure would be high.

Q. How many of them pass without modification, do you have any idea of that?

A. Comparatively few.

Q. Five or six?

A. I wouldn't make a guess on that, but I know from my experience over a period of years at the laboratory that there are comparatively few that don't require some little modification or adjustment.

Q. How many have you taken into the laboratory that have gone through without modification?

A. Do you mean by that, actually submitted for official tests?

Q. Yes.

A. I would say in the past year probably half a dozen.

Q. How about in prior years—about the same number? [894]

A. About the same number. The requirements are gradually stiffening, and it was a little easier to get by in previous years than it is now.

Q. You do take the precaution of submitting them to the laboratory, don't you, despite your own findings on whether they will pass?

A. Only if I feel that it is a marginal case. For

(Testimony of Walter M. Berry.)

instance, with the equipment that I have available for determining combustion, for example, it is not nearly as accurate as the laboratory equipment, and if I feel that it is a marginal case I very often take a chance on having it pass the laboratory for the reason that if I think it won't pass it would require major changes or modification, which are very often expensive and difficult to do.

Q. Most times don't you find that appliances have to be modified in some manner after they get in the laboratory? The AGA laboratory I am talking about.

A. It depends a good deal on your definition of "modification." There are nearly always some adjustments to be made. It depends upon your definition of "modification." Maybe a very minor change in the baffling of your down draft diverter, or some other small matter. And, of course, there is a constant set of changes when you submit different blowers. Say on a forced air furnace, you submit different blowers, different controls, different pilots. [895] There is constant change of equipment and adjustments necessary.

Q. Would this be a fair statement of what happens when a company submits an appliance to the American Gas Association laboratory: The company presumably gets the appliance fixed up in the best possible manner, doesn't it, that is the first thing that would happen?

A. At least they think they do, yes.

Q. And they have designed it with the American

(Testimony of Walter M. Berry.)

Gas Association requirements in mind, haven't they? A. Yes.

Q. Incidentally, it is fairly expensive to put an appliance into the laboratory, isn't it?

A. It is.

Q. After that they put an appliance into the laboratory and they know the chances are it might go through, but they know probably the better chance will be that they are going to have to change it some after they get it in the laboratory, isn't that true?

A. I think the manufacturer is always optimistic that he has the appliance in good condition or else he wouldn't incur the delay and the cost of repeating a great number of tests. The difficulties and the reason I and several other men are in this consulting work, we do make preliminary tests and try to get the appliance in as good a shape as possible, with the expectation that it will go [896] through without any major re-test.

You might have the appliance through the laboratory, say, 95 per cent, and fail in one little thing that might upset the whole appplecart and require you to repeat practically all the preceding tests, and that is very expensive. That is the only reason that several of us are in the picture at all as consultants, that we are able to render that service and save the manufacturer the extra cost of laboratory fees.

Q. Prior to the time you had been called into

(Testimony of Walter M. Berry.)

this test you had never done consulting work for Coleman, I believe you stated?

A. I never had, no.

Q. So presumably they would have their own testing laboratory and do work similar to that which you do with their own employees; would that be correct?

A. I would think so.

Q. Did you handle any wall heaters to take them through the American Gas Association requirements at all at any time, Mr. Berry?

A. Yes, I have had several clients who have submitted appliances.

Q. Any for the 1956 requirements?

A. Yes.

Q. How about earlier requirements?

A. Yes. [897]

Q. Did any of those go through the laboratory without the necessity of any modifications whatsoever?

A. Frankly, I don't know whether any of them required any modification or major change. I know they eventually got through.

Q. What kind of a seal did you use when you stated you sealed off the passageways from around the lower box into the economizer, Mr. Berry?

A. We had some heavy aluminum foil about two and a half or three inches wide that we pasted along the sides all the way from the bottom up to the header plate. And this illustration here shows some metal tabs that were inserted in the header, underneath the header plate, and they sealed off

(Testimony of Walter M. Berry.)

most of the crack. And then using this metal, aluminum metal tape, which had a stickum on the back of it, why, we sealed off all the cracks and made what I think was an absolutely air-tight joint there.

Q. Let me see if I understand it. You went around the economizer header plate with tape, is that it?

A. No, no. We sealed off the—we sealed off along the side with this heavy aluminum tape——

Q. Along the side of what?

A. The side of the heater and the wall.

Q. The lower box.

A. And the wall, yes. And sealed off all the air [898] in this area here, so that no air coming up the back could get into the front.

Mr. Stanbury: There is in court, Mr. Hoegh, a three-dimensional colored picture with a viewer of the sealing, if it would facilitate your understanding of what he is telling you. There is a viewer here. It has to be plugged in.

It's too bad we don't have one without the sealing. While we will understand, the Court hasn't seen it without the sealing. They ran out of film.

(Whereupon the viewer was given to counsel and the Special Master.)

Q. (By Mr. Hoegh): Did you put a sealing along the bottom?

A. Only down to the bottom of the combustion space to——

Q. On the sides down to the bottom?

(Testimony of Walter M. Berry.)

A. Down to the bottom of the casing, yes. All the way down to the bottom casing.

Q. Anything along the bottom of the rear baffle of the heater to seal that off? Do you understand what I mean, Mr. Berry?

Here at the bottom of the heater is a, what you might think of as a "U"-shaped member, with the flat back portion of the "U" along the wall. Is that correct? A. Yes. [899]

Q. Did you seal that area there?

A. No, we did not.

Q. So that air could come up from around the lower box and come behind the lower box and the wall? And you didn't block off that?

A. It couldn't get in front, no. But——

Q. Well, that area was open, though, wasn't it?

A. Yes, yes, that area was open.

Q. Now, how did you seal off the air that would come up there and get in the economizer?

A. I think that photograph was rather descriptive there. I don't know that I can explain it any better except to say that the whole area along the side of the inner casing was sealed all the way down to the bottom; and this area here was sealed completely.

Q. Which area is that?

A. This area in here.

Q. Would you describe it? The reporter would like to get it down in the record, and so would I, Mr. Berry.

A. The area below the header plate.

(Testimony of Walter M. Berry.)

Q. Was sealed from what?

A. From the circulating air coming up the sides and back.

Q. By a seal that ran across the length of the header, across the heater? [900]

A. It ran all the way—as you saw in the illustration, it ran all the way across the front and down the sides—completely sealed.

Mr. Hoegh: I wasn't looking at that illustration, apparently.

Mr. Stanbury: We will get it out again.

(Whereupon the viewer was again handed to counsel.)

Special Master: That is aluminum foil? Or what was that?

The Witness: Aluminum foil, yes.

Q. (By Mr. Hoegh): Are you familiar with the construction of the header plates on these heaters, Mr. Berry? A. Yes, I am.

Q. Does this particular one have a notch in it to bleed air into the space between the wall and the economizer box?

A. I believe there is a small notch.

Q. Where is it?

A. About the center; in the back just about the center of the header plate.

Q. If you seal off air going into the space which would normally, in the normal function of the heater would lead to the economizer from around the back, would you get more air going through that notch?

(Testimony of Walter M. Berry.)

A. I doubt whether it would make any difference. [901]

Q. How big a notch is it?

A. I think it is only about a quarter of an inch wide by two inches.

Q. Two inches wide by a quarter of an inch deep? A. Yes.

Q. How much air will a notch like that hold? Or, how much air can you put through a notch like that?

A. It all depends upon the draft that you might have available, the pressure below and above the notch.

Q. You are going to get more flow through that notch if you don't have another available outlet for the air that comes up the back, aren't you? It's just a question of pressures and volumes and velocities we are dealing with, isn't it, Mr. Berry?

A. That's right.

Q. That notch is certainly not a critical flow orifice at any time in this heater, is it?

A. No, it is not.

Q. So the more pressure you get behind it the more flow will go through, is that right?

A. That is true.

Q. Have you ever seen a Coleman wall heater fixed up like this installed in a house?

A. I have not.

Q. Where does the air that normally comes up around [902] the—between the panel and the wall go in the way you fixed up this heater, Mr. Berry?

(Testimony of Walter M. Berry.)

A. Do you mean after we have put in the metal tabs?

Q. Yes.

A. The air would escape out of the front grille.

Q. Do you know that to be true?

A. Where else could it go?

Q. I am asking you, Mr. Berry.

A. Naturally, it would if it were all sealed off and no air went into the register above or just below the economizer there.

Q. Do you know the area I am talking about?

A. The air you are talking about?

Q. The area.

A. Would you say that again? I don't know if——

Q. Yes, I shall try. I am talking about the area between the panels and the wall. Do you know the front panel on the heater as shown here in the front?

A. Yes.

Q. At the sides of that panel there are channels that carry air, aren't there?

A. Yes.

Q. Normally those are interconnected with the areas around the back of the heater, aren't they?

A. Yes. [903]

Q. Now, where does that air go the way you have sealed this thing up, the air carried by those channels?

A. Well, there is very little movement of air in that area all sealed up.

Q. Have you ever checked it?

A. No, no, I have not.

(Testimony of Walter M. Berry.)

Q. When you say it's all sealed up, do you know whether that area is even sealed off from any other area in this heater?

A. It would be sealed off with the method we used there in sealing it.

Q. What seals it off at the top?

A. We used metal aluminum foil there to seal it all off.

Q. These channels would be outside the confines of the lower box, you understand that, don't you, Mr. Berry?

A. Outside the confines of the heater proper?

Q. Yes, that's right.

A. Well, all the air that goes up around on each side, between the element itself, or you might say the heater proper, and the casing, naturally comes out through the register.

Q. Do you know that?

A. Why, certainly.

Mr. Hoegh: Your Honor, I have a few more questions of this witness. [904]

Special Master: Will it take more than five or ten minutes?

Mr. Heogh: I see from Mr. Hale's notes that it would take longer, your Honor.

Special Master: Very well. We will recess now until 2:00 o'clock.

(Whereupon a recess was taken until 2:00 o'clock p.m. of the same day.) [905]

(Testimony of Walter M. Berry.)

change; probably not so much change in your volume of products going through the heater, however, or the flue temperatures or CO_2 in the flue, as well, as is well borne out by the consistency of these results under considerable varied conditions.

Q. Would you get cooler air going in at the point called the economizer air intake grille as a result of this draft in the room?

A. It is conceivable there might be just a slight change there, yes. But the change would be so insignificant as not to be noticed.

I think that it would be well to point out the fact that the volume of products going through the combustion chamber and up through the stack is so large in relation to the volume going up through the economizer that any effect in variation of temperature of air going into the economizer would be almost insignificant, and for this reason: That in burning a cubic foot of gas you are drawing in 10 cubic feet of air, consequently your products to combustion amount to amount 10 cubic feet for every cubic foot of gas burned. So you have actually, theoretically, 350 cubic feet or more of products going up into your stack, out of your heating element; however, due to the extremely high temperatures at which you discharge [908] those flue products out of the heater, it is necessary to inject a large volume of air to cool the gas down to a point where you pass the AGA laboratory, or meet safe conditions. So, as shown by these tests, your CO_2 is down to about four per cent,

(Testimony of Walter M. Berry.)

which indicates that you are actually drawing in twice the volume of air as to the total volume of products. So you have a volume of over a thousand cubic feet of hot products going up through your stack at a temperature of over 500 degrees.

Q. In how long a period?

A. In one hour over a thousand cubic feet per hour, so consequently any variation in grille temperature or amount of air going into the grille would be so insignificant compared with the total amount of heat going up the flue that you wouldn't expect to find any difference in efficiency. [909]

Q. Mr. Berry, your findings here show, roughly, that these particular heaters you checked had an efficiency of around 66 per cent, is that correct?

A. That's right.

Q. That wouldn't pass AGA, would it?

A. No, it wouldn't.

Q. How do you account for such a low percentage figure for efficiency on these heaters?

Mr. Stanbury: This heater. Excuse me.

Mr. Hoegh: This heater. I'm sorry, Mr. Stanbury.

The Witness: I mentioned this morning that in order to get by the laboratory, and most of them just barely squeeze through at this 70 per cent, that it is necessary to make every possible refinement in adjustment and conditions in order to get the heaters to pass this test.

There was no attempt in this case to make any special adjustment of burner, air shutter, or any-

(Testimony of Walter M. Berry.)

thing. We took the heater just as it was, and since the object seemed to be to make comparative tests, we weren't concerned about the actual efficiency at all.

Q. (By Mr. Hoegh): Well, the actual efficiency for a fact wouldn't be sufficient to pass AGA, would it?

A. This heater tuned up properly presumably would pass, because it has passed. I think a similar model has passed.

Q. What happens? Isn't it that through production [910] tolerances you get a little change in the heater and, therefore, that production model won't pass where a test model would?

A. Very often that is the case.

Q. So to get this heater up, you would have to redesign parts of it, wouldn't you?

A. No, I wouldn't say that.

Q. You would have to change the draft hood, probably?

A. No. I think the draft hood is so definitely described that I don't think any such change would be possible or allowed by the laboratory.

Q. How would you get efficiency up? You would increase stack temperature, wouldn't you?

A. No. You would actually try to reduce stack temperature. You would try to bring up your CO₂, and that would automatically bring your stock temperature down.

Q. Bring up your CO₂ brings your stack temperature down?

A. Always, yes.

(Testimony of Walter M. Berry.)

Q. Supposing you changed the draft hood, you would certainly—changed the draft hood to take more room air through the draft hood, your CO₂ would go down, wouldn't it?

A. It would go down, yes.

Q. And your stack temperature would go down?

A. It would go down. [911]

Q. If you took more room air in, your stack temperature would go up?

A. If you draw more air—do you mean through the diverter into the stack?

Q. That is what I mean.

A. If you draw more air in, actually that is the only way you could get that temperature down, yes.

Q. So to get that temperature up, you would use less room air in going up the flue?

A. That's right.

Q. So your CO₂ would go down and not up?

A. I was thinking about the CO₂ in your—directly out of your heater, the way we would bring our stack temperatures down would be to bring our CO₂ up as high as possible, but that is not true up in the stack there, where you have to have dilution in order to bring that stack temperature down. Consequently, your CO₂ goes down.

Q. How would you get the stack temperature up so that you would increase efficiency in this heater?

A. It really isn't necessary to do very much. There is a balance there. If you take the heat loss,

(Testimony of Walter M. Berry.)

with a low CO₂, you bring your stack temperatures down, too. You can get the same result by having a higher CO₂ and a higher stack temperature, so that theoretically it shouldn't make any difference what CO₂ you have going up in there. [912]

Q. You would get a higher stack temperature to do it wouldn't you, to bring up your efficiency up?

A. Let me think about this thing here.

Your question is what to do with this heater to get the efficiency up primarily?

Q. Right, yes.

A. I think probably the most effective way would be to get the very best possible condition in your burner, get the best possible flame adjustment. There isn't, really—

Q. You have calculated what the BTU input on this heater was, haven't you, Mr. Berry?

A. Yes, I have.

Q. So that you are burning gas at the rate of 55,000 BTUs per hour, 35,000 BTUs per hour?

A. Yes.

Q. You start with that, and then there are some losses up the stack? A. Yes.

Q. To get that overall efficiency in the heater up you have to raise the stack temperature, don't you? A. No, not necessarily.

Q. What do you do?

A. As I say, probably the most effective thing you might start out with is to make the best possible burner adjustment. That doesn't mean that you are changing your BTU [913] in put; you are

(Testimony of Walter M. Berry.)

just getting the very best possible flame on your burner.

Q. Well, assuming that you have done all that, did you make such an adjustment in this case?

A. No, made no attempt to make any adjustment on it.

Q. Assuming you have done all that, how do you get your efficiency?

A. The logical thing to do would be to increase your stack temperatures just so that it would get by the laboratory, and then take whatever CO₂ you get out of it. Your determining factor there in dilution is your flue temperatures.

Q. And the higher the flue temperature the higher efficiency, isn't that right?

A. Well, up to a certain point, yes.

Q. And if you adjust the flame to get a maximum optimum condition in the actual burning of this gas, that increases flue temperature, doesn't it?

A. No. It might decrease it for the reason that the more heat you absorb down the lower part of your heating element, the more efficient that heating element would be. You have so very little heating surface in these heaters, that that adjustment of your primary air and your burner adjustment is very, very important.

Q. Are you saying that we have got to change the primary heating element? [914]

A. No. I say universally all these wall heaters have so very little heating surface, that that is the reason your flue temperatures are up to 650 and

(Testimony of Walter M. Berry.)

700 degrees, escaping out of your combustion chamber. That is why you have to have dilution to get by the AGA requirements on flue temperature.

Q. If you increase the stack temperature by any means at all, you would get higher efficiency, wouldn't you?

A. Up to a certain point.

Q. And if you increase the stack temperature you would get hotter walls around the flue, wouldn't you? A. Yes, that follows.

Q. So to upgrade this particular wall heater, if you did it by raising stack temperatures, you would raise wall temperatures, wouldn't you?

A. I think that would be true of all heaters.

Q. It would be true of the one you modified by putting this tape on it, too, wouldn't it?

A. It would be true of all heaters.

Q. Now, is foil of this gauge that you used approved for use in these heaters, Mr. Berry?

A. No, I don't think it has ever been used before for this purpose, but it is a very good foil for making an experiment of this kind. This is, I believe, technically called pressure sensitive tape made by the Minnesota Mining Company. It is very heavy. It is as thick as this here (indicating), [915] and it has very good sticking qualities, so it does maintain its contact very, very well.

In fact, we had to pull it off and we had difficulty not tearing it when we pulled it off.

Q. If you supplied a reel of tape with any of your appliances that are approved for use in the

(Testimony of Walter M. Berry.)

field, the AGA wouldn't accept that, would they?

A. Certainly not.

Q. There are certain minimum gauge requirements for any metals used in these heaters, aren't there? A. There are.

Q. And if you had any of those metals in use as you have used these foils, heat would be conducted to the surfaces they touched, wouldn't it?

A. Yes. But I think this has pretty good conductivity itself. Aluminum has good conductivity.

Q. Did you check the temperatures under this aluminum? A. No, I did not.

Q. Would the use of this aluminum the way you have made it in these heaters in the tests you have made avoided the AGA approval on these heaters?

A. Certainly. It was only intended for an experiment, as I understand it.

Q. Why is it that that approval would have been avoided?

A. For the reason that that construction of course [916] would not be acceptable.

Q. To the American Gas Association?

A. Certainly not.

Q. Did you take this wall heater with the foil attached between the box and the wall down to the AGA manufacturers' room?

A. No, I did not.

Q. You didn't test it down there?

A. No.

Q. You tested it, as you testified, in Mr. Cook's place and over at Coleman's?

(Testimony of Walter M. Berry.)

A. That's right.

Q. Normally when you want to get approval of a line of appliances for a client of yours, do you check them first at your home or place of business?

A. No, I do not. I never do any testing on an appliance until it is officially submitted to the AGA laboratory, and then the laboratory has provided facilities for carrying on these preliminary tests.

Q. That is in the manufacturers' room?

A. In the manufacturers' room. They give three days free service and use of facilities, and after that the manufacturer is charged \$10 a day for the use.

Q. You take them into the manufacturers' room and you test them yourself, is that correct? [917]

A. I do.

Q. And then after that you take them into the laboratory and the laboratory checks them?

A. That's right.

Q. The fact that you, yourself, have passed these things before you take them into the AGA doesn't satisfy the City of Los Angeles, does it?

A. Only in very special cases.

Q. Generally it doesn't satisfy any of these codes, does it?

A. No. The City has accepted my tests out in the field on a number of industrial appliances.

Q. Where does the AGA take temperatures on these appliances?

A. The same locations where we made these tests.

(Testimony of Walter M. Berry.)

Q. What other locations?

A. They do run some temperatures on the back wall above the header.

Q. Right above the notch where the air would be coming up the back of the box?

A. That's right.

Q. But you didn't take those temperatures?

A. No, we didn't.

Q. Where else would they take temperatures that you didn't? [918]

A. I don't know. I can't recall any other place.

Q. You are familiar with the requirements, are you not?

A. I am, but I don't think there are any other places.

Q. How about above the economizer outlet grille?

A. They go all the way up the eight-foot height, wall, yes.

Q. Do you know the height of that outlet grille?

A. No, I don't. I think it is three feet above the heater. What that total height is there, I don't recall.

Q. What is the height of a normal ceiling?

A. 8 foot 6.

Q. Do you know how far down from the ceiling that grille is, outlet grille?

A. I do not. We didn't have it in a room so I don't know exactly.

Q. Didn't you even have it in a standard test panel, Mr. Berry?

(Testimony of Walter M. Berry.)

A. We did, yes. [919]

Q. Do you know whether temperatures in that area above the economizer outlet grille are normally very high?

A. That is very difficult to determine that. We tried it in some preliminary tests, but we threw them out for the reason that it is almost impossible to determine the true temperature of that outlet grille because you are getting the effects of radiation in your inside flue.

Q. Would you say temperatures up there would be as high as 300 degrees above room temperature?

A. No.

Q. How high?

A. Frankly, I don't know in this particular case.

Q. Would it have been 200 degrees above room?

A. Yes, I think I would say that it was probably that high. But, as I say, it is almost impossible to determine that.

Q. You didn't measure it for these tests, did you?

A. We attempted in some very preliminary tests to determine that. In fact, we had a grille across there with some thermocouples, and we threw all those tests out because we found out it didn't mean anything.

Q. Too high, is that it?

A. The temperatures were too high because they were getting direct radiation from the surface of the flue.

(Testimony of Walter M. Berry.)

Mr. Stanbury: I wonder if I might ask, is counsel talking about wall temperature or air temperature? [920]

Mr. Heogh: Wall temperature.

Mr. Stanbury: The witness——

Special Master: I think he is talking about the flue.

Mr. Stanbury: He is talking about something else.

The Witness: Outlet grille temperature.

Q. (By Mr. Hoegh): No. Wall temperature above the outlet grille.

A. Wall temperatures above the outlet grille. Above the economizer grille.

Q. Yes.

A. We took them all the way up to the top there.

Q. It doesn't show on your tests, Mr. Berry. I am just wondering why. What did they show?

A. The thermocouples are put up as high as the AGA laboratory would have those thermocouples.

Special Master: What is that box there that has those initials N.M.L. on it, above it?

The Witness: May I ask Mr. Newton a question?

Special Master: We will probably get to him next.

The Witness: I believe that I would like to leave that up to Mr. Newton to explain, that part of the construction. I took the heater and the wall——

(Testimony of Walter M. Berry.)

Q. (By Mr. Hoegh): You followed his instruction on it, is that correct?

A. I took the wall just as it was and set it up [921] according to the instructions of the Coleman Company—Mr. Grubb.

Q. I thought you testified that you set it up in accordance with AGA requirements and tested it according to AGA requirements, both as to temperatures and efficiency.

A. This board, I think, comes very close, if not exactly, according to AGA construction, and I don't—

Q. Well, AGA tests from floor to ceiling, does it not? A. Yes, they do.

Q. And you didn't?

A. I would have to refresh my mind and look at some photographs.

The Witness: Have we some photographs there to show exactly how high those were?

Mr. Stanbury: Yes, we have.

The Witness: To show how high the top thermocouples were?

(Whereupon the viewer was handed to counsel and then to Special Master and then to the witness.)

The Witness: There are no thermocouples above the top register of the economizer.

Q. (By Mr. Hoegh): Well, my question is that AGA would have tested temperatures up there, would it not, Mr. Berry?

(Testimony of Walter M. Berry.)

A. I assume that they originally did when this was approved. [922]

Q. Do you know the purpose of the top half of the economizer outlet grille on the Coleman heater, Mr. Berry, the way that is formed there?

A. Yes. It separates the discharge of the economizer from the upper section of the area in there.

Q. What is the purpose of the upper section?

A. The upper section lets a certain amount of circulation from the room.

Q. In that point? A. Yes.

Q. Do you know the reason for that construction? A. Has some cooling effect.

Q. That takes that upper portion, takes air from the room and dumps it out some place. Do you know where it goes?

A. It goes up in the attic.

Q. Do you know whether that is AGA approved, to dump room air into the attic that way?

A. Well——

Mr. Stanbury: Is the question now or at the time this heater was approved? Do you mean now?

Mr. Hoegh: Well, let's start with the time of the approval covering this heater.

The Witness: At that time the laboratory was not very much concerned about a certain amount of leakage into the attic. They are now. [923]

Q. (By Mr. Hoegh): That wouldn't pass AGA now, is that correct?

A. No. And most of the heaters didn't. Con-

(Testimony of Walter M. Berry.)

sequently, they were all reapproved this last year.

Q. Would AGA approve the use of a notch in a head plate, such as on the heater you tested, under the present requirements, or under the '54 requirements?

Mr. Stanbury: I am thinking to think. Wasn't our last approval in '53?

I am objecting to '54 as being immaterial, and confusing.

Special Master: All of these heaters went out under the first set of regulations, as I recall.

Mr. Stanbury: That is correct, yes. And they stopped making them.

Special Master: Good for five years.

Mr. Stanbury: And they stopped making them before the five years expired. That is correct.

Special Master: Well, the two which were admitted into evidence were those approved in '51 and '53. The latest we had was '53. I think that is the one the heater was approved under.

I think that objection would be good.

Q. (By Mr. Hoegh): Do you know whether those heaters were designed with the '54 requirements in mind, Mr. Berry?

A. I don't know. [924]

Q. Now, the AGA takes temperatures at the back of the economizer, doesn't it, in the wall?

A. Yes, they do.

Q. And you didn't?

A. No, for two specific reasons. First, my experience with wall heaters has been that the hot

(Testimony of Walter M. Berry.)

spots are nearly always in front just above the header plate. If you correct that difficulty you usually have no difficulty elsewhere. Of course, in this particular case it would have been impossible to get any legitimate or reasonable test in trying to measure the temperatures there because of the very fact of cutting off the—sealing off the front there with the tape, and you also cut out the air to the back of the heater; consequently, the back wall temperatures would have been probably high and entirely misleading.

Q. I thought you testified that was your first experience with a heater with an economizer, Mr. Berry. Isn't that true?

A. It is true, yes.

Q. Wouldn't that upset some of the things you gained from experience with other heaters?

A. Well, not necessarily. But I state that was my general experience with wall heaters. But the other reason is probably more pertinent in this particular case, that in the process of sealing off that air, we closed off the [925] ventilated air around the sides and back of the economizer. So any results there would have been entirely misleading and wouldn't have meant anything.

Q. You modified the heater so much that it couldn't pass AGA around the back, is that correct?

A. We didn't have in mind trying to modify it at all. We were making comparative tests, irrespective of any AGA requirements; although we

(Testimony of Walter M. Berry.)

tried to run most of the tests as close as possible to the AGA requirements.

Q. Your experience certainly hasn't included any temperatures up around outlet grilles prior to this case, economizer outlet grilles prior to this case?

A. No. But I have had a great deal to do with measuring temperature and I know the effects of radiation.

Q. Would wall temperatures up there be 200 degrees above room?

A. I don't know what they would be. But apparently they weren't under normal test since it was passed by the laboratory. That is all I can say.

Q. And you don't know the effects of these modifications on the heater as to those temperatures then, do you? A. No, I do not.

Q. Did you run any of these tests—well, first, do you know a Mr. Fairchild?

A. Yes, I know him very well. [926]

Q. Did you run any of these tests in connection with this Mr. Fairchild?

A. No, I did not.

Q. Do you know whether or not he ran any such tests similar to yours on these heaters?

A. I do not know. I might mention that the setup of this heater and all the equipment is still set up, and I feel so confident of the results on the efficiency test that they can be checked any time and I feel quite sure that results will be similar to what we have presented here.

(Testimony of Walter M. Berry.)

Q. Mr. Berry, do you know whether the American Gas Association will let you interconnect the air space, or form a conduit between the air coming out the main discharge grille of the heater—that's around in the lower panel there—and the panel side rails, as we call them?

Mr. Stanbury: Objection. That is immaterial. It apparently refers——

Special Master: I don't think I understand this question, Mr. Hoegh.

Will you read the question?

Mr. Hoegh: Perhaps I can rephrase it.

Mr. Stanbury: My objection is that it apparently is in the present tense. That is my objection.

Special Master: I don't think I followed the question.

Mr. Hoegh: Perhaps we had better start over.

Q. (By Mr. Hoegh): Wasn't it your testimony this morning, Mr. Berry, that any air coming up around inside the panel between the panel and the wall would be discharged into the room through the main outlet grille of the heater?

A. Well, I don't know that I expressed it quite that way. That discharge, I think, would be through the side louvers on the side of the panel there.

Q. You weren't talking about those this morning, were you?

A. Maybe I didn't quite understand your question. There is some leakage there, but there's a projection on that front panel that slips over the

(Testimony of Walter M. Berry.)

edge of the top part of the heating element there. I mean, the inside casing that probably makes that joint fairly tight.

Q. You didn't recall that this morning, did you?

A. Yes. I may have misunderstood your question, or not answered it quite in detail, specific detail.

Q. Your testimony was that that air was discharged out into the room through the main outlet grille, as I recall it this morning, Mr. Berry.

A. Well, I was in error. I answered too hastily then, if I did, because I helped put that front casing on there to the heating element there, and I should have recalled that that was a fairly snug fit there.

Q. So that the air coming up in those panel side [928] rails would not be discharged into the room. Is that your testimony?

A. It would be discharged in the room, but probably be discharged through the louvers on each corner, or on the upper side, side of the upper section of the front panel.

Q. Normally, that was two panel side rail channels which are connected with the area around the sides of the lower box, is that right?

A. Yes.

Q. But you sealed that off to prevent any interflow of air between those areas, is that correct?

A. Yes, we did.

Q. When you take a heater into the AGA laboratory, Mr. Berry, any variations over the 90-

(Testimony of Walter M. Berry.)

degree limit of rise in wall temperatures are rather strictly adhered to, aren't they?

A. Rather strictly now, yes. There is a little tolerance; occasionally, I don't think they would hold you up for a few degrees in a few spots. But, strictly reading the specifications, why, there is no tolerance in there.

Q. Have you found in your work before the AGA that generally it is required to have separate air passages between heating elements and the surrounding wall spaces?

A. It isn't required, but that is the only way that most manufacturers find it possible to get by on the wall temperatures, to have that circulating space between the wall [929] and the element by means of a flange or some projection attached to the side of the casing.

Q. The way you have modified these heaters in an attempt to seal off certain areas, you have a rather large surface connection there, don't you, between the heater and the wall? A. Yes.

Q. That certainly wouldn't be approved by AGA, would it?

Mr. Stanbury: You mean now or then? If there is any difference.

Mr. Hoegh: Then. I assume there would be.

The Witness: It's conceivable that the conduction of heat along a solid metal member going to the wall would conduct enough heat there so that the temperature might be too high.

Q. (By Mr. Hoegh): Do you know of any way

(Testimony of Walter M. Berry.)

that a company could make a heater so that it would have this construction, with this foil that you have used to modify these heaters?

A. Well, I am not a sheet metal worker. I don't know just how I would fabricate it, but I can conceive there would be ways of doing it. Whether it be a very practical way or not, I don't know.

Q. You have variations in stud width to contend with. That would be one of the problems, would it not? A. Yes.

Q. You would have variation in the spacing between [930] studs to contend with, wouldn't you?

A. That is true.

Special Master: On these temperature charts here, you took the temperature on both the front and back of the stud?

The Witness: The thermocouples go in the studs from the outside. The ends are turned over, flush with the studs, yes. So there are two rows of thermocouples the way down.

Special Master: That is, you got a reading on both sides?

The Witness: Yes. On the inner side of each studding going down, yes, on the side of the heater.

Special Master: That is what you call the back and front? Is that the way you would express it, as far as the heater fitting in there is concerned?

(Discussion between Special Master and witness outside the hearing of the reporter.) [931]
Special Master: Is there a question pending?

(Testimony of Walter M. Berry.)

Mr. Hoegh: No, there is not, your Honor, unless you asked it.

Special Master: No.

Q. (By Mr. Hoegh): Mr. Berry, going back to that area above the economizer outlet grille, have you ever examined any Coleman installation instructions to determine how far down from the ceiling that grille is? A. I have not.

Special Master: Can't you agree on that?

Mr. Tilton: We are under the impression that it is in the record. Mr. Newton says that the record contains a copy of the Coleman installation instructions, but I don't have the exhibit number in mind at the moment. We can find it.

Special Master: Could we have it approximately? Is it a foot, or six inches, or two feet?

About a foot, 15 inches, something of that kind?

Mr. Newton: Yes.

Mr. Hoegh: I think that would be approximately correct.

Special Master: You both have seen these. I have never seen one of the real ones. All I have seen are photographs. But it would vary a little according to the height of the ceiling?

Mr. Stanbury: That is what I would think.

Special Master: You can't tell from a photograph—— [932]

Mr. Newton: It is 80 inches from the floor.

Mr. Stanbury: To the top?

Mr. Tilton: To the bottom.

(Testimony of Walter M. Berry.)

Special Master: That is, the air outlet grille, 80 inches to the bottom of that air outlet grille?

Mr. Tilton: Yes.

I found the exhibit, your Honor. It is No. 28 in the record.

Special Master: In the original record?

Mr. Tilton: Yes.

Q. (By Mr. Hoegh): In your work as a consultant, Mr. Berry, or in your experience as an engineer, can you conceive of any reason for the structure of the top of that outlet grille, economizer outlet grille, except to take care of a very dangerous condition at that point?

A. Well, construction of somewhat similar nature is used quite frequently to direct the air or products in a certain direction. I would say that if the products escaping from that economizer were extremely hot, by spilling them somewhat below the top there, that there would be less heat piled up near the top, yes.

Q. The products aren't spilled at all, are they?

A. I mean the heat, the warm air coming out of there.

Q. How about the top half of the economizer [933] outlet grille, would that be used to alleviate an extremely high wall temperature?

A. Any circulation of air you might have up there naturally would reduce the temperature of the wall.

Q. Wouldn't you presume from looking at that

(Testimony of Walter M. Berry.)

structure, that that was what that was for, the top of that economizer outlet grille?

Mr. Stanbury: Pardon me for interrupting here.

When we refer to the top of the economizer outlet grille, are we talking about the top of that part that is an outlet, or the top of the whole grille?

Mr. Hoegh: The top of the whole grille I am referring to.

Mr. Stanbury: I am objecting to that.

Special Master: You mean above the outlet?

Mr. Hoegh: Yes.

Mr. Stanbury: I object to that, because it assumes it is an outlet grille by referring to it as the top of the outlet grille.

Special Master: There is no grille there, is there?

Mr. Hoegh: The portion that I am referring to—as I have understood our nomenclature, the entire grille was an outlet grille.

Mr. Stanbury: No, sir.

Mr. Hoegh: And the outlet is shown, and the inlet is [934] just directly above that.

Mr. Stanbury: No. The outlet grille is where it is marked Air Outlet, and the top part is an inlet.

Q. (By Mr. Hoegh): Have you understood what I have meant when I have talked about the top of an economizer outlet grille, Mr. Berry? Have we been talking about this area up here above the plate that extends through the middle of the economizer and out through the economizer outlet grille?

(Testimony of Walter M. Berry.)

A. Well, I assume that you are talking about the very extreme top of that grille there.

Special Master: That is actually divided?

The Witness: That is divided, yes.

Mr. Stanbury: You can see it on the photograph, if you wish, your Honor. Exhibit 8-A to -E shows the division line.

Q. (By Mr. Hoegh): In your experience, Mr. Berry, can you conceive of any reason for that except to alleviate a very high temperature around that grille, or in the wall above that grille?

A. Unquestionably there is a relief there, yes. Just how much circulation you get above that partition there up through the wall there depends upon the openness of the structure above there. Even if that wasn't open, experience has shown that a certain amount of circulation in that area might have some cooling effect. But if you have some relief up in the attic so that the room air can get into that area [935] above that partition of the wall, naturally it will cool that down.

Q. Wouldn't you normally, then, have taken the temperatures in that area above the hole of the economizer outlet grille, checked those?

A. I suppose if we were preparing this for submission to the laboratory, we would have had to do that, but since these were strictly comparative tests and we had no question in our mind but this had been approved as originally constructed, why, we had no particular occasion to investigate every portion of that grille or area.

(Testimony of Walter M. Berry.)

Q. Did any of these temperatures which you did take show temperatures which would not have passed the American Gas Association requirements?

A. Yes, sir, there were a number of places in this top panel. And there may have been a few in the wall temperatures. I don't think there were. But certainly there were a few spots up there in that panel in front of the economizer that were a little over the AGA requirements.

Mr. Hoegh: I have nothing further, your Honor.

Mr. Stanbury: I have a couple of questions, very quickly.

Redirect Examination

Q. (By Mr. Stanbury): Concerning your testimony this afternoon as to what [936] you did to this heater, or what you could have done to the heater to increase the efficiency, did you in any of these tests notice any difference in the way the heater performed when you let the wall space air around the lower box into the economizer from when you kept it out altogether?

A. No, I did not.

Q. When you had that back wall space air sealed out of the economizer, was some of it continuing to pass up the wall, back wall space, to the attic?

A. Yes, a certain amount went up through there.

Q. Who is this person Fairchild to whom reference was made that you said you know?

(Testimony of Walter M. Berry.)

A. He is another consultant with a great deal of experience in gas appliances.

Mr. Stanbury: I have no further questions.

Recross Examination

Q. (By Mr. Hoegh): Mr. Berry, have you found in your experience with wall heaters that you can make any changes in the air flows of those heaters without affecting the operation of the heater throughout?

A. Well, there is a case, again, as to how much change. Naturally, the air flow over a heater is very, very important, and the better contact you have with the air and [937] the combustion chamber, or the heating element, the better it is, because you have such a very small amount of heating surface there. It is really ridiculous that you can get by with that small amount of heating surface with a 35,000 BTU heater. So that the air flow is important. Just how much change you make, to make any material change, naturally it is going to change your results.

Q. As I understand your testimony, it is particularly important because of the small size of these heaters, the small heat exchange surfaces that you have?

A. That's right.

Q. Would you say that modifications that you make to increase the efficiency on one kind of heater would apply to a different kind of heater where there were different air flow patterns?

A. There is a considerable similarity now. So

(Testimony of Walter M. Berry.)

many have copied each other that many of the heating elements are almost identical so that the same changes would probably apply. But there are different types and modifications that would have to be different for different heat exchangers.

Q. With each set of appliances you have an initial set of problems, don't you?

A. That is right, every one is to some extent different.

Q. Would those same considerations apply to any other [938] of Coleman's wall heaters, the Dual Line, 35 Dual, 45 Dual?

A. I wouldn't be prepared to say anything on that. I have just probably barely seen the 35 Coleman. I have no definite recollection, even, of what it looks like.

Mr. Hoegh: Nothing further.

Mr. Stanbury: Nothing further, Mr. Berry.

Special Master: You may step down. We will take our recess before we go on.

(Recess taken.) [939]

* * * * *

ALWIN B. NEWTON

called as a witness by the defendant, being first sworn, was examined and testified as follows:

Special Master: Be seated. Give me your name and address, please.

The Witness: Alwin B. Newton, 3511 Elmwood Drive, Wichita, Kansas. [940]

Direct Examination

Q. (By Mr. Stanbury): Mr. Newton, what is your occupation?

A. I am vice-president of the Coleman Company in charge of design and research.

Q. How long have you been in that position?

A. Somewhat over four years.

Q. What is your profession?

A. I am a mechanical engineer.

Q. What is your education?

A. I graduated from Syracuse University in mechanical engineering, and then from Massachusetts Institute of Technology afterwards with a master's degree in mechanical engineering.

Q. And will you tell us of your professional experience?

A. Yes. I worked for the General Electric Company in Lynn, Massachusetts, for approximately a year in their turbine research department. Then for York Corporation, York, Pennsylvania, for somewhat over four years in their development department.

I left there as an assistant head of their devel-

(Testimony of Alwin B. Newton.)

opment department. And then for about eight years I was with Minneapolis-Honeywell as manager of their refrigeration division in Minneapolis, Minnesota; after which I was chief engineer of Chrysler Corporation Airtemp Division in Dayton [941] for some four and a half years.

Then I went to Acme Industries in Jackson, Michigan, for one year as director of sales; after which, by previous contemplation, I became vice-president in charge of engineering. I was with them a total of somewhat over four years. And from there I came to Coleman.

Q. Since you have been at Coleman what has your experience and function been?

A. I first came as chief design engineer, knowing of the potential retirement of the then vice-president in charge of design and research, whose place I took.

I am a member of the Board of Directors and of the Executive Committee and, of course, of the various steering committees that direct the activities of the company. [942]

* * * * *

Q. (By Mr. Stanbury): Now, will you explain, in detail, what you show on this overlay?

A. Yes. This overlay shows one of the methods by which the heater could have been redesigned to eliminate the pink air from the economizer completely. What we have done in this case is to illustrate the economizer—let me say first, from here down there is no change in the lower box, so we

(Testimony of Alwin B. Newton.)

can eliminate that from our discussion. All the changes occur above that.

And what we have done is to change the inlet so that we have, by use of a solid header plate across here, with no ventilation whatever, and by making that adapted to communicate [977] directly with the air economizer inlet and providing a bottom plate so that the pink air is completely excluded from this area above the header plate and the bottom of the air inlet, we have no communication whatever between the pink and the room air which is shown as orange. To do that we have split the upper part of the casing into two pieces, which is a simple thing to do, so that the upper part, a point just two or three inches below the top, up through the area that includes the room air inlet grille is a separate piece and is installed at the same time the economizer is. Preferably it could be installed later, but it would probably be installed at the same time the economizer is installed.

And here I have illustrated an adjustable joint, because there are differences in the space from the front face of the wall back to the back side in here where the back of the header plate has to communicate with the rear inner wall. And that adjustment is simply taken care of by moving this in and out here (indicating).

Now, those are the changes we would make in the heater.

Q. All right. Now, how would that design compare with the heater used on the tests made for

(Testimony of Alwin B. Newton.)

September 3rd and September 15th insofar as the wall temperatures and the efficiency are concerned?

A. Well, we know that this type of thing makes no measurable difference in efficiency; that is, as we get more [978] air from the room in here, the changes, if any, are in the direction of a slightly higher efficiency. But they are so minor that for all practical purposes you get the same efficiency that you would have had with the same heater before.

As far as the temperatures, our tests that we took on September 15th, and other dates, show that the more we can exclude the air from below, such as the pink air which is a heated air, from the economizer inlet, the more we use the low temperature from the room itself through the economizer, the lower are going to be all of these wall temperatures. And our data shows that, as we took out the little bit of air that leaked in from the pink area, the wall temperatures went down in this upper area. Actually, in this design they go down much more because we are also excluding the brown air from the economizer. And that's a heated air, also.

Q. What would be your opinion, sir, as to whether a heater designed as that one is would perform so as to comply with the AGA requirements as they were in 1953?

A. It would have certainly complied, and would certainly have passed any AGA test that the original heater passed.

(Testimony of Alwin B. Newton.)

Q. In 1953 were you aware of any AGA requirement, or requirement at all, against permitting the pink air, the back wall air to flow in the wall space all the way to the attic? A. No.

Q. Was that question raised in connection with the Coleman heater? [979]

A. Not to the best of my knowledge.

Q. What retooling would be involved in switching from the infringing heater to a heater designed such as you have just indicated with your overlay there?

A. Well, we've made some estimates of what our retooling costs and so forth all through the organization would have been, and the total retooling, which includes, of course—we call them the “new literature” and so forth or sales retooling, which includes that kind of thing—would be about \$7500.

Q. How many dies do you have to change?

A. There is one basic large die that has to be changed, and that is the die that makes this whole outer casing. And we have to have a new die to form this piece, this piece being the new piece with the room air return grilles in it in front of the economizer. And that new die there would probably be made from what we cut off of the old die, at least the male part of it, and female parts of it would.

Q. How long, in your opinion, would be required to do that redesigning, retooling and get the

(Testimony of Alwin B. Newton.)

AGA approval and get the thing on the market as redesigned?

A. Well, relating it to the things we were doing at the time and the type of testing we would have to do, [980] it would be done in less than three months.

Q. Do you know whether AGA does, or did at that time, make any allowance whatsoever to expedite matters which were in some state of emergency?

A. They did then, and they do still.

Q. That is, put them through somewhat faster than the normal routine?

A. Any manufacturer who has a real emergency need for quick service gets it.

Q. Now, would that heater, as redesigned, put any hot metal in contact with the wall or stud spaces?

A. No. We haven't changed anything down below here (indicating). We have exactly the same contact of just the one header plate, which we had before; and that's no problem.

Q. I mean, does it put any hot metal in contact with the wall or stud spaces? A. No.

Q. Would that redesign be adjustable to variations in stud space dimension?

A. Yes, it will.

Q. How?

A. Because of the adjustable joint which is shown here, where the inlet hood, as it might be called—what was formerly the top of the casing—

(Testimony of Alwin B. Newton.)

and the rest of the duct that takes the air from the room into the economizer, [981] is shown with a slit joint into the inlet of the economizer so it can be moved in and out to take care of wall variations.

Q. Is it adjustable to variations in wall thickness? A. Yes, it is.

Q. How?

A. Mainly the variation in wall thickness, or in the material of the front wall——

Q. I thought that was where the wall thickness problems exist. If I am wrong——

A. There are two places——

Q. All right.

A. ——if I may say so, where the wall thickness problem does exist. One is the thickness of a stud, which is three and five-eighths inches, a standard stud; but in some areas there is a practice of cutting them down to save wood. And then there is also a variation in the thickness of the front wall itself. And since we are concerned with the dimension that is made out of the stud dimension plus the wall thickness dimension, we have to provide this variation that I just described; and it provides for both of those things.

Q. Starting in May of 1953, if you redesigned this heater as you have indicated, do you believe that you could have had the redesigned device on the market by September 1st of that year?

A. I would certainly expect to, yes. [982]

Q. Now, can you tell us whether what you have

(Testimony of Alwin B. Newton.)

described as a redesign of the economizer of this heater, whether that was also adaptable, was adaptable to both the four foot and three foot economizers, or only to one?

A. It could have been made with either economizer. The difference in length is at the top.

Q. Now, when you designed this chute—when did you design the chute?

A. July of—June and July of 1956 is when it was designed.

Q. At that time did Coleman have its plans for the kind of heater which is now put out by it?

A. Yes, surely.

Q. Were you attempting to redesign the heater when you designed the chute?

A. No, I was not.

Q. What were you attempting to do?

A. Well, actually, I was—what I was attempting to do was to take care of all heaters as they then existed in our stocks and in our branch stocks and our distributors' stocks, for that matter, to provide a device which I thought would eliminate the infringement. I was trying, really, to carry out what I thought the wishes of the court were, and do it ahead of the time we actually had to.

Q. You were attempting to apply something which you [983] thought would do the job to the heater design already in use?

A. Yes, that is correct.

Mr. Stanbury: I will offer the overlay that has

(Testimony of Alwin B. Newton.)

just been used by the witness as Defendant's Exhibit BB.

Special Master: It will be received. [984]

* * * * *

Q. (By Mr. Stanbury): What kind of a wall heater is Coleman now making?

A. We are making a single stud space heater in sizes which run from 25,000 BTU in the smaller size now up to 62,500, I believe it is, in the largest size.

We have one of the largest big heaters that is on the market.

Q. Are they single stud space?

A. Yes, they are all single stud space.

Q. Do they have economizers?

A. No, they do not.

Q. I assume it has AGA approval?

A. Yes, sir.

Q. How does its function compare with the infringing heater with the economizer?

A. Its function is similar as far as heating the room and whatnot. It does a better job of heating than any of the older heaters did.

We have provided for more air circulation in the heater, and therefore get more circulation within the room than we ever got with the previous models with the economizer.

Q. When did Coleman begin to put that model on the market? [1004]

A. 1957 right after the first of the year. [1005]

* * * * *

(Testimony of Alwin B. Newton.)

Cross Examination * * * * *

Q. (By Mr. Hoegh): Mr. Newton, have you ever actually built a heater such as you have shown in Exhibit BB, with the lower part, as well?

A. No, not exactly like that.

Q. Obviously then, too, you don't have AGA approval on that kind of a heater?

A. No, I don't believe I said we did. My comment this morning was that the tests that we have run indicate that the more we go in this direction the lower our upper wall temperatures and the more simpler it becomes to get AGA approval.

* * * * *

[Endorsed]: Filed February 10, 1958.

In the United States District Court, Southern
District of California, Central Division

No. 213-57-WM

THE SIEGLER CORPORATION, a Corpora-
tion, Plaintiff,

vs.

THE COLEMAN COMPANY, a Corporation,
Defendant.

TRANSCRIPT OF PROCEEDINGS

Los Angeles, California

Monday, May 12, 1958

10:45 A.M.

Honorable William C. Mathes, Judge Presiding.
Appearances: For the Plaintiff: Christie, Parker

& Hale; By: C. Russell Hale, Esq.; Richard B. Hoegh, Esq.; and Ashley Stewart Orr, Esq., 595 East Colorado Street, Pasadena 1, California. For the Defendant: Parker, Stanbury, Reese & McGee; Dawson, Tilton, Fallon & Lungmus; By: Raymond Stanbury, Esq. and Timothy Tilton, Esq., 315 West 9th Street, Los Angeles 15, California. [1]*

The Clerk: Case No. 213-57-WM, The Siegler Corporation vs. The Coleman Corporation.

The Court: Are you going to say something more than you said in the voluminous memoranda, Mr. Hoegh?

Mr. Hoegh: Your Honor, I won't say that it will be more. I would like to emphasize a couple of points.

The Court: All the talk is about Claim 2. Isn't there a Claim 1 in the patent?

Mr. Hoegh: There is, your Honor; but through the admissions of the defendant that claim is not in issue in this case.

The Court: Well, the first thing we should settle then is what is before the court on this particular motion. Is it stipulated that everything that is in the file as of this date is before the court on this motion?

Mr. Hoegh: I assume so, yes, your Honor.

The Court: Is that agreed, Mr. Stanbury?

Mr. Tilton: I assume you are referring to the depositions that have been taken and other material.

Mr. Hoegh: Yes.

* Page numbers appearing at top of page of Reporter's Transcript of Record.

Mr. Tilton: I see no objection to that.

The Court: Well, I haven't read any of the depositions. I never look at the interrogatories or requests for admissions [2] prior to the time that counsel are prepared to discuss them or until counsel agree. I treat the interrogatories and the requests for admissions the same as I would depositions. I never go into them in advance, but if they are before me—that is the reason I wasn't apprised of the disposition as to Claim 1. I kept wondering what happened to Claim 1. So that is disposed of in the requests for admissions, is that it?

Mr. Hoegh: Yes.

The Court: It isn't involved here, is that it?

Mr. Hoegh: No. It's not involved to this extent, at least, that none of the devices manufactured by the plaintiff or predecessor are charged to infringe that claim.

We have placed no particular stress in this motion on any of the depositions. Those are matters which we think are outside the scope of the motion, since they relate primarily to the issue of infringement.

The Court: Are you saying they aren't used in support or opposition to the motion? As I understand the stipulation just made, everything that is in the file, including, depositions, stipulations, interrogatories, if there are any, and requests for admissions and responses to requests for admissions, all of that is before the court either in support of or in opposition to the motion.

Is that the stipulation? [3]

Mr. Stanbury: That is the stipulation, your Honor.

Mr. Hoegh: Yes, your Honor.

The Court: Very well. Regardless of how pertinent it may be. I don't know how pertinent it may be. But one of the difficulties of these motions is sometimes defining what the court may consider on the motion. Oftentimes I get them under submission without knowing just precisely what is to be considered on the motion.

Mr. Hoegh: I had assumed that Rule 54 would permit the court to examine anything in the record in search for an issue of fact.

The Court: Well, I have always had doubt about that unless the motion is actually predicated on those and specified. I think it is better practice in making the motion to specify precisely as to the affidavit of so and so verified a certain date, the deposition of so and so.

Mr. Hoegh: I believe our Notice of Motion does do that, your Honor.

The Court: It may well do it.

Very well. You may proceed.

Mr. Hoegh: I know you have seen these parties and these lawyers in here on other matters from time to time, but I would like to review a little history.

The Court: Well, I must say that the title of the plaintiff, I didn't know until the other day that the [4] plaintiff was the same as the one in the other case. I must say that deceived me. I never did look at the file in this case until the other day, really,

and I didn't know that I had the Holly Company and the Coleman Company again before me. I thought Siegler was another company.

Mr. Hoegh: It is, your Honor. It is the successor to the business formerly conducted by Holly in Pasadena.

The Court: I notice in this reply memorandum you quote some colloquy of court and counsel in that other case. Is that in the record here?

Mr. Hoegh: I have made it part of the record, I believe, in the Notice of Motion, your Honor.

The Court: What? By incorporation by reference?

Mr. Hoegh: Yes. I had assumed there would be no dispute but that admissions made by the parties in the other action by the Coleman Company would constitute admissions in this case.

The Court: Well, if they are before the court in this case.

Mr. Hoegh: Yes, your Honor.

The Court: How are they before the court, by incorporation?

Mr. Hoegh: Only by incorporation by our reference to them in the notice, your Honor. Those are the only matters which we had brought out of the other record and [5] attempted to use in this proceeding.

The Court: Do you think that the statement of counsel, in effect, as to the validity or invalidity of the patent should be given weight?

Mr. Hoegh: Yes, your Honor. I base that on the

understanding I have that anything counsel says in court binds the client.

The Court: You start here with the presumption of validity, and as I understand it, you rely upon that Browell patent not having been cited.

Mr. Hoegh: That is part of it, yes.

The Court: In other words, you rely on the fact that the presumption of validity does not apply in respect to that patent, the Browell patent.

Mr. Hoegh: Yes, your Honor.

The Court: Otherwise, the presumption of validity would have to stand, wouldn't it?

Mr. Hoegh: Well, your Honor, I know that you devoted a great deal of study to that matter in the Delco case decided here recently, and we have attempted to follow that case in this matter by setting forth facts which in our opinion destroy the presumption of validity even as to the cited art.

The Court: In order to destroy the presumption the court would have to say, would it not, that the evidence [6] would be such that no finder of fact could reasonably find to the contrary?

Mr. Hoegh: Well, that is perhaps one way of saying there's no issue as to the facts which have been set forth.

The Court: That would be the only way you could say there is no issue as a presumption.

Mr. Hoegh: Yes.

The Court: Ordinarily you can't weigh the evidence on a motion for summary judgment.

Mr. Hoegh: That is true, your Honor. And I think perhaps when you say that no finder of fact

could find to the contrary, you in effect weigh the evidence; you say there is no issue.

The Court: Well, you weigh it but it weighs so far on one side that you are able to say that no reasonable fact finder could find to the contrary of the fact claimed.

Mr. Hoegh: Yes, your Honor.

The Court: Whether you can do that in the face of the presumption, where you say a disputable presumption is so far outweighed—I suppose the evidence could be that clear. I don't know.

Mr. Hoegh: I think it could, your Honor. The Court of Appeals in the Paris case (234 F. 2d 65) declared a patent invalid over the prior art since it was obvious on its face that no invention was represented. [7]

The Court: The Paris case?

Mr. Hoegh: Yes.

The Court: Our Court of Appeals? Was that that purse?

Mr. Hoegh: Our zipper bag of some kind, yes.

The Court: I cited that in the Delco case. But the court there didn't discuss the presumption at all and as I recall——

Mr. Hoegh: It was still there.

The Court: ——the case, it appears in the opinion but not in the reasoning of the court. It appears in the opinion that the pertinent prior art was not cited in the Patent Office proceedings in that case, and that could have been a ground, but not a stated ground.

Mr. Hoegh: No.

The Court: Well, I am taking your time. What did you wish to emphasize?

Mr. Hoegh: Well, I like to get the views of the court. I just wanted to give a little bit of history, your Honor.

The patent with which we are now concerned, the Giwosky patent, was applied for in October 1953. That was almost a year after the Coleman Company had been on the market with the infringing devices, and was some time after the Holly Company had obtained its patent and been on the market with the device covered by the Hollingsworth patent.

The application that was originally filed, from [8] the file wrapper history, shows that it was directed to a wall heater having three stages of heat exchange, the first being through the primary wall heater, or lower box, and the second two being along the flue, the cool points that Mr. Giwosky stated to be those that presented a problem of overheating—"local overheating" I think he calls it.

Thereafter, in April of 1954, just about five or six months after Coleman had applied for its patent, Holly came on the market, predecessor of plaintiff, with a device that is now charged to infringe. Thereafter, the Coleman Company, through the processes of amendment in the Patent Office, or the process of the Patent Office presenting several amendments, refers to being in October 1954, the Coleman Company did not at that time attempt to claim a device such as that which Holly brought on the market in April of 1954; nor did the Coleman Company attempt to have the application taken up

out of turn in the Patent Office on the grounds that an infringing device was on the market. And that procedure is provided for in the Patent Office when a person who has a patent application before the office thinks that an infringing device is on the market. To me that indicates at least as early as 1954 the Coleman Company did not consider that this particular application covered a device having only two stages of heat interchange; which the request for admissions and the interrogatories do point out that the Holly unit have only [9] the two stages of interchange, while the original Coleman application was directed to a heater having three stages of interchange of heat.

The application of Giwosky was amended in 1955, late 1955, and the remarks to that amendment state,

“Newly added claims carefully define a structural arrangement conceived of by applicant, and in so doing these claims recite a wall heater and economizer assembly wherein three distinct air flow patterns are present.”

Those three distinct air flow patterns are those of the circulation around the primary heat exchanger and additional two along the flue in the Giwosky conception.

So that by November of 1955, well over a year after Holly had been on the market with a device now charged to infringe, there was no thought that the Coleman application would cover a device such as that which is now charged to infringe, having only two stages of heat interchange; one in the pri-

mary box, and the second above that in the economizer.

I think the next significant date is April 1956 when the Court of Appeals affirmed this court's judgment in the other case between these two parties. In July of 1956, just two or three months after the Court of Appeals affirmed this court's holding Coleman to be an infringer of the Hollingsworth patent, the claim which became Claim 2 of the [10] patent we are now concerned with was admitted, after final rejection in the Patent Office, and——

The Court: After final rejection of what in the Patent Office?

Mr. Hoegh: Of the application originally. There were some proceedings after final rejection in the Patent Office.

The Court: Is the file wrapper here?

Mr. Hoegh: Your Honor, we had only one and it is in the original file. It is not in the court file.

The Court: I recall it being mentioned, but I didn't see it. I can get it from the original file.

The patents, of course, are all here, are they?

Mr. Hoegh: Yes, your Honor.

The Court: I notice they are attached to your memorandum. Are they before the court in the form of an affidavit or admission of some kind?

Mr. Hoegh: No, they are not in that form, your Honor.

The Court: I don't see how I can consider prior art patents that are just merely attached as exhibits to a memorandum.

Mr. Hoegh: We have the file history before

your Honor, and the citations to those patents are in the file history. [11]

The Court: Of course, the file wrapper is the administrative record.

Mr. Hoegh: Yes, it is.

The Court: Now, is the patent in suit before the court in some way? Is a copy of it before the court?

Mr. Hoegh: A copy of it is in the proceedings.

The Court: How?

Mr. Hoegh: I don't think that it is in the file wrapper.

The Court: How is it before the court here?

Mr. Hoegh: Only as being lodged with the court, your Honor.

The Court: Well, that doesn't—I think there is an affidavit. Here is the Giwosky affidavit, and attached is Giwosky patent 2,767,702. Is that the patent in suit?

Mr. Hoegh: Yes, it is, your Honor. And he does state that that is his patent in the affidavit.

The Court: Does he authenticate that?

And there is the Hollingsworth patent attached. And the Browell patent is attached.

Are all of those authenticated by the affidavit?

Mr. Hoegh: No, they are not, your Honor; just the Giwosky patent. The Hollingsworth patent, of course, has been gone into rather thoroughly previously and was in the courtroom, and I would assume that this court could take judicial [12] notice of matters which are in its file. The Browell patent and the Hollingsworth patent are in those files and copies were supplied with the memorandum.

The Court: Well, for the purpose of this motion will it be stipulated that the Giwosky patent, and the Hollingsworth, et al. patent, 2,602,441; and the Browell patent, 268,860; that the copies filed by the plaintiff on March 31, 1958, under caption "Affidavits, Prior Art Patents and Certified Copy of File Wrapper in Support of Plaintiff's Motion for Summary Judgment," are true copies of those patents?

Mr. Stanbury: So stipulated, your Honor.

The Court: Very well. Now, in your memorandum you have attached——

Mr. Hoegh: Copies of additional references of record other than Hollingsworth.

The Court: I haven't looked at them, but there is C-a-y-o-t, 2,702,539; Snyder patent, 2,093,492; and Derrough, 1,608,777; Bacon and McGarrigal, 786,713; which are attached to plaintiff's "Reply to Defendant's Memorandum in Opposition to Plaintiff's Motion for Summary Judgment," filed May 8, 1958.

Is it stipulated that those are true copies of the patents?

Mr. Stanbury: So stipulated, your Honor.

The Court: Very well. [13]

Mr. Hoegh: Your Honor, we have taken this history of this patent. It was issued in October, October 23, 1956. Late in December, December 28, 1956, the final injunction of this court, or the interlocutory injunction of this court in the earlier case was served upon the defendants. December 28th was a Friday. On Monday, December 31st, a letter was sent to the Holly Manufacturing Company by

Coleman, the Coleman Company's attorneys, charging it with infringement of the Giwosky patent.

In our opinion the Giwosky patent, we think, was asserted merely for its nuisance value. That is not before this court but we do urge seriously that there are grounds for invalidating it on a motion for summary judgment. Two of those are set forth in our motion which I think can be taken up together. The first is that Giwosky was not the inventor of the device claimed in Claim 2 of the Giwosky patent, the claim that is before this court. The remaining ones are that Claim 2 presents new matter which did not perform part of the Giwosky application as originally filed; that the matter which became Claim 2 required a supplemental oath because it was so far removed from what had been originally filed by Mr. Giwosky in his application.

The Court: What required the supplemental oath, the rules of the Patent Office?

Mr. Hoegh: Claim 2, the rules of the Patent Office. [14]

The Court: Presumably, the Patent Office waived the rule, did it not, by not requiring the supplemental oath?

Mr. Hoegh: Well, I suppose that is——

The Court: If we indulge the presumption in the regularity of official proceedings we can't assume that the Examiner overlooked it and forgot to ask for it, can we?

Mr. Hoegh: Nevertheless, your Honor, the court is empowered to review the validity of the patent; and in doing so there certainly would be a duty

upon this court to examine whether or not everything had been accomplished that should have been by the applicant.

The Court: Well, the oath is a matter of form, isn't it? It could be waived, I suppose.

Mr. Hoegh: No, it could not, the way I understand it.

The Court: The statute calls for an oath, does it?

Mr. Hoegh: Yes, your Honor. And the reason for the Patent Office rule is to allow a supplemental oath to be filed to give the inventor a chance to cure——

The Court: Then it would seem your reliance would be upon the statute and not on the Patent Office proceedings.

Mr. Hoegh: Yes, your Honor.

The Court: This is, in effect, a supplement to the application.

Mr. Hoegh: Yes. [15]

The Court: And not verified as a part of the statute.

I interrupted you.

Mr. Hoegh: The remaining grounds which could be lumped in this discussion would be that the patent, or the matters now claimed to infringe, were put in public use more than two years before the subject matter of the claims which are now claimed to infringe was presented to the Patent Office.

The Court: Is your argument there that if the Holly device is an infringing device, that it is the device described in the patent in suit, which was on the market for a few years?

Mr. Hoegh: Yes, it is, your Honor.

The Court: Have you finished stating the grounds?

Mr. Hoegh: Yes, as to these. The remaining ground that we have urged is the one that the device is anticipated by prior art.

The Court: Now, I notice you rely not only on the Browell patent, but you rely upon tacking the Hollingsworth patent onto the Browell patent.

Mr. Hoegh: Yes, your Honor.

The Court: Can that be done? I am referring now to strict anticipation. I am not referring to this loose use of the term "anticipation" in the sense of meaning that prior art so anticipated in fact the invention that we must [16] say that the patent in suit does not represent an inventive advance over the prior art. I am not referring to that loose use of "anticipation." I am referring to strict anticipation as used in patent law.

Now, as I understand it, a patent must anticipate, a prior patent must anticipate the patent in suit in order for there to be strict anticipation for a prior invention; that you can't look to invention of Patent A and take one element of a combination, and Patent B—I am referring to prior art patents now—and take another element of the combination, and prior art Patent C and take another element and say that those three elements are combined in the patent in suit and each of them appears in the prior art patent and, therefore, there is anticipation. If *there* were true, there could never be a valid combination patent, could there?

Mr. Hoegh: There could if the combination were of those that were not obvious to people skilled in these matters.

The Court: Well, now you are referring to whether or not it's——

Mr. Hoegh: A less strict anticipation.

The Court: ——a patentable advance over the prior art. But in order to be anticipated in the strict sense of the term as I understand it—but there is so much loose talk in the decisions that I may be in error—there must be a prior patent or a prior invention which singly anticipates [17] the invention of the patent in suit in order for there to be strict anticipation, what some of the cases call strict anticipation to distinguish, I suppose, from loose anticipation. Is that your understanding?

Mr. Hoegh: Yes, your Honor.

The Court: Then you couldn't tie Browell onto Hollingsworth for any other purpose than to say that they are both parts of the prior art and taken together show a state of art, such an advanced state of the art that the patent in suit is not an inventive advance over it. Isn't that what you mean?

Mr. Hoegh: Yes. I think you can also say, your Honor, that Hollingsworth, the Hollingsworth patent taken all by itself is a strict anticipation of the Giwosky device.

The Court: Would you say that Browell is?

Mr. Hoegh: No. As to certain details of the economizer I would say so, your Honor.

The Court: The defendant says — as to certain details.

Mr. Hoegh: Yes.

The Court: Well, that wouldn't be material, would it? Well, it might be material in determining whether or not either Hollingsworth or the patent in suit is an inventive advance over Browell.

The defendant says, in effect, that you are blowing [18] hot and cold on Browell; that in the Holly Manufacturing case, the prior suit in this court, you urged that Browell was not part of the pertinent art, as I recall.

Mr. Hoegh: I think perhaps we are both a little guilty of that. But I think we can say this, your Honor, that the Hollingsworth device showed the way to Giwosky, and this is an established fact—of how to design a device with a secondary heat exchanger, a wall heater with a secondary heat exchanger. In solving the very basic problems of wall heaters which we went into at great length in the earlier trial, the early fireplaces were of no help at all to Hollingsworth in setting up and designing a wall heater having functions and the elements that his device did. However, once Hollingsworth was on the market, or had been disclosed in an issued patent, then there would be no patentable advance over the prior art of Hollingsworth when you consider Browell.

The Browell patent relates to a flue construction, and the pertinence of it certainly seems to me to be demonstrated by the testimony of Mr. Kice and the

remarks of Mr. Lyon which we have alluded to in our memorandums.

To pursue a little further the question of anticipation by Mr. Hollingsworth of the Giwosky device, the Hollingsworth device shows the very feature upon which Coleman was able to convince the Patent Office that Coleman should be granted a patent on the Giwosky device, the Giwosky invention. [19] That feature was the use of room air blowing across the top of the lower box into the economizer, which in the later stages of the Giwosky patent became the reason for which Coleman was urging allowance of its patent. The use of room air to cool this so-called barrier plate or lower box top and use that room air then to further cool the flue, exactly the same type—well, not exactly the same, but patentably the same kind of arrangement was used in the earliest Hollingsworth device. He took room air from a little more circuitous route. He took it up through the columns of the trim and across the top of the lower box into the economizer.

The Coleman Company in its arguments to the Patent Office said that Hollingsworth showed only a dead air space in that particular area in the forward portion of the lower box, while in actual fact Hollingsworth did show a way for air to blow up around the column of the trim, which would be room air which would be circulated or flowing up through those columns across the top of the lower box and into the economizer just the same as Giwosky did later by a slightly different means; at least disclosed in the patent by a slightly different

means. That dead air space was presented as a distinguishing feature between Giwosky and Hollingsworth after the Examiner pointed out that there was no invention in making the barrier of Hollingsworth complete and taking that room air in at higher levels. [20]

The Coleman Company went on to make a very strong pitch about the importance of that room air flowing across the top of the lower box and thereby solving a problem which could not be solved by the Hollingsworth device. In view of that, which I don't consider to be refuted in any way by any of the documents filed by the defendant, it seems to me, the plaintiff, that we can disregard the presumption of validity which might normally exist as to the reference to Hollingsworth and look right straight at both of those devices. And in my opinion the Hollingsworth device is a strict anticipation of the Giwosky device.

The Court: Hollingsworth was cited in the Giwosky patent.

Mr. Hoegh: Yes, sir.

The Court: If the Giwosky patent is presumptively valid over Hollingsworth, over the Hollingsworth patent, wouldn't it be presumptively valid over Browell?

Mr. Hoegh: No, it would not be presumptively valid over Browell, since Browell was not cited to the Patent Office. And I do not think that it would be presumptively valid over Hollingsworth because the Coleman Company misled the Patent Office as to how Hollingsworth functioned in order to make

the statement that this one feature upon which Coleman was able to obtain a patent was existent in Giwosky and not in Hollingsworth. And, in actual fact, those representations [21] to the Patent Office were not true. There is no doubt that the Hollingsworth device took air through the column trims and across the top of the lower box into the economizer.

The Court: I notice that your Notice of Motion does not state that it is based upon the records and files in the other case. At least, as I read it I don't see it here.

Mr. Hoegh: The only reference to it, your Honor, in the Notice is the admissions of the defendant set forth in the memorandum of points and authorities served with it.

The Court: The admissions include portions of the record in the other case which you wish to rely upon?

Mr. Hoegh: Those that we have quoted, yes, your Honor, the statements of Mr. Kice and Mr. Lyon.

The Court: That is Case No. 15,886, is it, Holly against Coleman?

Mr. Hoegh: Yes, your Honor.

The Court: Do you wish to stipulate, gentlemen, that the records and files in that case may be before the court in this case on the motion?

Mr. Tilton: If I may speak on that, your Honor. We have no objection to that. But we certainly don't want to stipulate that a misstatement of fact by Mr. Lyon can be considered an admission against interest.

Mr. Lyon's statement in the record was that Browell [22] was the file wrapper reference against the Giwosky patent, and that is not true.

The Court: I am not going to decide this case upon any statement that counsel made in the heat of another trial. It would take a solemn concession of counsel, in my view, to bind the party in a situation as serious as the worth of this property. I am just thinking of the finding, so that there won't be any question as to what is before the court and what I may consider. And that is made more difficult by the fact that I tried the other case.

If it is agreed, I will take judicial notice of the papers and records in the other case, case No. 15,886.

Mr. Stanbury: We will stipulate that the court may do so.

The Court: Is that agreeable to the plaintiff?

Mr. Hoegh: Yes, your Honor.

The Court: Very well.

Mr. Hoegh: That record is getting quite voluminous, and will be quite a record to incorporate or search for an issue of fact. The only pertinent parts that we have presented are set forth in the memorandum.

The Court: Perhaps I am extending it too much. Perhaps I should say the record before the Court of Appeals.

Mr. Stanbury: Well, that's another matter, your Honor. [23]

The Court: You would want the entire record.

Mr. Stanbury: Oh, yes.

The Court: Very well.

It is agreed that it be the entire record as it exists as of this day?

Mr. Hoegh: Yes, your Honor.

The Court: Anything further, Mr. Hoegh?

Mr. Hoegh: Your Honor, the question of intervening rights seems to me to be one which is easily determined upon this motion, and in my opinion there is no question but that Claim 2 presented a broadening amendment to the application as originally filed since it eliminated one of the elements which was a restriction upon the application as it was originally filed. It eliminated the third stage of heat exchange, or what we might call the second stage, along the flue. The original application was directed to the three stages. Mr. Giwosky, in filing for his patent, declared that there was a problem of overheating at the economizer outlet on the top edge of the economizer outlet, and that he was unable to get a device which did not have the third stage in it to perform so that it would pass AGA regulations. He merely lifted off the top stage and was unable to make such a device perform properly, in his opinion. He stated that there was a problem of local overheating in the region of where this third stage circulation took place, so that that local overheating [24] was alleviated by what he taught in his application as originally filed.

So we come then to Claim 2 which eliminates this particular feature, the third stage of heat exchange; but the problem is still stated in Mr. Giwosky's application and is still stated to exist in the patent

that finally issued. Mr. Giwosky made an oath that he thought he was the first inventor of this device when he first filed the application in 1953. He made no subsequent oath that he had found a way to alleviate this local overheating by some other means than that which he originally taught in his application. He is only entitled to a patent which has utility. The patent laws require, or just merely state that patents shall be granted for new and useful improvements and new and useful devices. He could not obtain a patent on a device which had no utility.

We are not arguing that such a device might not have utility, but at least Mr. Giwosky thought that it had no utility.

Then we come along to the device which is now set forth in Claim 2 and now charged to infringe this patent, and we find that devices charged to infringe have been on the market for well over two years before this particular claim appeared in the patent. There's no doubt about that. That's a fact which is plainly established by the affidavit of Mr. Hamner. So we have a broadening amendment. We have a [25] device. And reinforcing that statement is the fact that Mr. Giwosky stated in his affidavit that he found the third stage to be essential to the operation of the device shown and disclosed in his patent.

We have the further amendment to the objects of the patent, or what might be called the statement of invention which makes a change in the objects to include only one stage of heat exchange along

the flue, and that change was made at the same time that this broadening amendment was filed in July of 1956.

All of those factors point up that Claim 2 is a broader claim than anything previously filed, and when you take that fact and set it alongside of the unchallenged fact that the devices now charged to infringe were on the market as early as 1954, I think that the cases clearly establish that such a claim is not valid since the rights have intervened in the meantime for this two-year period.

Those are factors which clearly are ascertainable from the file wrapper and from the fact that this particular device now charged to infringe appeared long before the claim which it is charged to infringe appeared in the application.

I think, your Honor, that it is certainly a clear rule of patent law that a disclosure must teach a person skilled in the art how to practice or construct the device defined in the claims. It would be asking Mr. Giwosky to be [26] indeed prophetic to ask him to teach persons skilled in the art how to do something which he found he could not do himself. It would be an impossible burden. I don't think that anyone can examine the file wrapper, or even the patent, and find a way in which this particular device defined in Claim 2 could be made to operate, in view of the problems set forth by Mr. Giwosky as to local overheating in the region of the economizer outlet.

He has invited persons skilled in the art to do more work in this field. He says, "While in the fore-

going specifications I have set forth a specific structure in considerable detail for the purpose of illustrating the invention, it will be understood that such details of structure may be varied widely by those skilled in the art without departing from the spirit of my invention."

Undoubtedly Mr. Newton has done more work in this field, and Holly Manufacturing Company, if they do in fact infringe—and that is certainly not a fact at all—was able to construct a device having only two changes of the heat interchange; and perhaps Mr. Newton has, too, as set forth in his affidavit. However, we are still faced with the fact that Giwosky did not teach anyone how to do this, for he himself was unable to do it.

Your Honor, I would like to reserve a few moments for reply. [27]

The Court: Very well.

Mr. Stanbury: Your Honor, may I move the admission for the purpose of this case of Mr. Timothy L. Tilton of the Illinois Bar, who is admitted to practice in the Supreme Court and all the courts of Illinois, as well as in all of the Federal Courts in Illinois; and for whose good character and integrity, based upon personal acquaintance, I may vouch.

The Court: The motion is granted.

Mr. Stanbury: I am prepared to argue this matter, but in anticipation of questions that might come up, Mr. Tilton is so much better qualified to argue the matter than I am that I have asked him to do so, your Honor.

The Court: Very well.

Mr. Tilton: If the court please, we take the general contention that most of the questions raised by the plaintiff are premature and improper on a motion for summary judgment; but at the same time we have no desire to hide behind a claim of triable issue. We are willing to have a full discussion of the issues in this case at any stage. So, in consequence of that, I would like to take up each one of the points that have been raised here, unless your Honor feels that there is no reason for going further at this time with any particular issue.

Now, the first point which I believe your Honor has indicated really as the threshold consideration here [28] relates to the presumption of validity, and while I would not undertake to say what your Honor meant in the Delco chemical case I certainly feel that you did make it clear in that opinion that that was a situation in which the Patent Office hadn't gotten within a country mile of the present prior art. There was square and direct participation of a whole group of prior art patents that had been completely overlooked by the Patent Office.

Now, Siegler's theory here is that the Patent Office missed Browell, and if they had had it they never would have allowed this patent. Our position is that the Patent Office considered references which were much more pertinent than Browell, which are more pertinent on their face, and they had no reason to cite Browell because it was cumulative.

The Court: I suppose plaintiff will concede that Hollingsworth is more pertinent than Browell.

Mr. Hoegh: Yes, your Honor.

Mr. Stanbury: I should think so, your Honor.

Mr. Tilton: If I may hand up a group of patents. They are all in evidence in this matter. They are the ones attached to the affidavit, but I thought it might be more convenient if your Honor first of all will look at the Browell patent, which is the one on top, and you will notice that down toward the bottom of the flue there are some little [29] black specks that look like perforations.

Now, the specification of Browell doesn't mention what those are. They seem to have a reference letter small p on them, but the specification doesn't tell you what they are, what purpose they serve. However, I think it is probably true that they are small openings, that some air did come in there and could have come out of the pipes marked I.

But, now, as compared with that, let's see what references the Patent Office did consider. If your Honor will look at the Derrough patent, which is the next one in the group, that was cited in the first action of the Patent Office. It shows a flue with cold air coming in and going out in two places. It is a jacketed flue in which you have two cold air streams ventilating the flue. The patent specification goes into detail about this. It isn't left to conjecture.

Not only the Derrough patent was cited, but also the Bacon and McGarrigal patent, which is the next one in the group. And as your Honor will note there again, we have a jacketed flue in combination

with a fireplace, and we have two cold air streams ventilating that flue.

Now, at the very most the Browell patent would only teach the practice of using a plurality of cold air streams to ventilate a jacketed flue and clearly could only [30] be cumulative of either one of those we have referenced.

Now, as to whether it is a better reference, I leave it to your Honor's judgment as to whether the Examiner would cite something that didn't even mention the particular feature in question but left it to conjecture by looking at the drawing.

As I understand the law, your Honor, it is this: That the presumption of validity may not be circumvented simply by showing some patent which was not officially cited, unless it's clear that the Patent Office completely missed the most pertinent art. And there are two recent cases in the Seventh Circuit that held this. And one of them is the *Artmoore Co. v. Dayless*, found at 208 F. 2d page 1, the point in question being at page 4. And also *Helms Products v. Lake Shore Manufacturing Company*, 227 F. 2d 677, and the point being at page 681.

If I might just read one or two short sentences from the *Artmoore* case. This was written by Chief Judge Major, who was undoubtedly our leading patent judge in the Seventh Circuit. He has since retired.

But he stated,

"* * * defendants' argument based on these prior art patents, not cited in the Patent Office, is not

convincing. It has been held, and we think with logic, that it is as reasonable to conclude that [31] a prior art patent not cited was considered and cast aside because not pertinent, as to conclude that it was inadvertently overlooked * * *

So, I don't believe we have a situation here where, as in the Delco case, it can be said to be plain that the best prior art patents were missed.

Now, as to whether Browell is such a powerful reference here, since we have incorporated everything by reference I would like to refer to the appeal brief which was filed by Holly in which they stated,

"A study of the Browell patent moreover shows that what it discloses is basically different from what defendant makes and sells. All that Browell discloses is the jacketed pipe connected to a fireplace * * *"

and then they go on and finally conclude,

"* * * in short, the Browell fireplace and jacketed flue bear no more than a superficial resemblance to the defendants' wall heater."

The Court: You think that that cancels out what Mr. Lyon says about the patent in suit?

Mr. Tilton: I think it is at least as good if we are going to consider that sort of thing. And, incidentally, the court of appeals agreed with that statement and so held in their opinion. [32]

The Court: What do you say on this point that Claim 2 was added long after the alleged infringing device appeared on the market?

Mr. Tilton: Our position, your Honor, is that

that is a complete misinterpretation of the file wrapper. It is true that at the outset Claim 1 of the patent called for the feature of using a plurality of air streams to ventilate the flue. This claim was rejected as directly anticipated on Bacon and on the Derrough patent in the first action and was withdrawn. The subject matter that was carried all the way through and on which claims were eventually allowed is that found in Claim 3 of the original application, and there is nothing in Claim 3 that says that you must use two stages of heat exchange. Rather, it claims a particular means for overcoming hot spots in a flue of this type of unit which can be applied either once or twice.

The Court: Did Claim 3 in the original application become Claim 2 allowed?

Mr. Tilton: Yes. If I may refer to that, your Honor. The final wording of Claim 2 in the patent is somewhat different in that it is longer. Claim 3 is a broader statement of this inventive principle, but nevertheless it is perfectly clear that it was the same invention that followed all the way through here.

The Court: Well, did Claim 3 become Claim 2 as [33] allowed?

Mr. Tilton: Claim 3 was cancelled for the purpose of rewriting in the first amendment and another claim presented on that subject matter and followed all the way through until that subject matter was eventually allowed. And our position is that at all times there was complete continuity of this subject matter.

If your Honor would care to go into this just a little further at this time, if you will look at the copy of the Giwosky patent which I handed up; I think that it is right below the Hollingsworth patent. If you do that, I think I can explain what we have. Actually, there is not two inventions here but only one. If you will notice, the area in dispute is the lower one, of course, and you find there this plate 18 which extends across the top of the heater and directs the hot air out into the room.

Now, directly above that is the lower end of the front wall, and that is one of the most vulnerable points for overheating. And what is done there to overcome that is to bring the cool room air in and pass it over that plate, thereby reducing its temperature and reducing the amount of heat radiated to that wall.

Now, we find that another hot spot occurs up toward the top of the unit, and there again Giwosky does exactly the same thing. He provided a barrier plate, No. 26, which [34] brings the hot air out underneath and brings the cool air in over the top of it. And then to say, as our opponents here apparently do say, that what Giwosky thought he invented was a three-stage heat exchange unit is just impossible on any examination of this patent. I mean, what he was doing here was trying to find a means of overcoming hot spots and, thereby, creating an improvement over what Hollingsworth had done. And it is true, he had two hot spots and he used the invention twice. But the sub-

ject matter that we claim is involved in this suit would apply whether it was used once, twice, three or four times.

So, we can't see that there is any basis for the contention that you have to use it twice. Claim 3 only calls for it once. And we had a claim before the Patent Office at all times which called for it only once.

Of course, I recognize that these matters involve a rather detailed construction of the claims, and that our position is that that can be more readily done at the trial, but——

The Court: If this is an invention over Hollingsworth's device, how does the Hollingsworth device infringe?

Mr. Tilton: Yes, your Honor. I would be very happy to go into that.

The Court: I don't believe that is before me though, on this motion. The motion is based upon validity. [35]

Mr. Tilton: I think it is in this way: That the defendant takes a position which—or, rather, the Siegler Company, the declaratory plaintiff, takes the position that they are entitled to intervening rights because the device which they manufactured from 1954 on comes under our claims. Now, if that is true it must have infringed. So, it's a threshold issue on the matter of intervening rights. You must hold it infringed before you can create intervening rights. And here they are in denying the infringement, while at the same time asking

your Honor on a motion for summary judgment to hold that they have intervening rights.

The Court: Normally, if the prior device infringes, why, it anticipates, doesn't it?

Mr. Tilton: That is quite right, your Honor.

If I might hand this up to your Honor. This is a photograph from the deposition of Mr. Biggers in this case, and that represents a front view of the heater which Holly originally manufactured from 1950 to 1954.

Now, as compared with that we have these photographs which were attached to Mr. Newton's affidavit—and I will hand them up again for convenience—which show the device as modified in 1954. And your Honor will notice that there is an opening at the top about 12 inches wide—12 inches long and one and a half inches wide—which communicates directly with the economizer. You can stick both hands in [36] there and practically reach inside of the economizer. Prior to that they had a solid metal plate across that opening.

This isn't a leakage question. We are not complaining about a little air leaking into the heater. This is a situation in which they modified their construction, and our position is that they had to do it in order to pass the more stringent A.G.A. requirements in 1954.

Now, our patent was applied for well before they came on the market. We applied for it in 1953. And our heater was on the market in '52.

The Court: Well, if you say that Holly infringes,

then aren't you saying that the Hollingsworth patent anticipates the Giwosky patent in suit?

Mr. Tilton: If your Honor will look at the copy of the Hollingsworth patent that I handed up, you will find that in the area where they now have an opening they had nothing but a solid metal plate. That is the area which is marked "critical area" on that copy. s

The Court: Yes. I have it before me.

Mr. Tilton: What the Examiner did in the Patent Office—and incidentally, this case was very thoroughly examined. We discussed it not only with the primary Examiner but also the chief Examiner of the division, and the rejection was that it would not require invention in view of Hollingsworth to open that plate that is shown solid there and to bring [37] in air into the economizer in view of the other references, such as Derrough and Bacon which show the ventilating of flues.

And so the exact issue of validity over the prior art as presented in this case was presented to the Patent Office. There is no difference.

Now, we had this question that was raised by Mr. Hoegh in which he said that we misrepresented something to the Patent Office. Well, now, I don't know how that is before your Honor at this time. They have filed no affidavit which says that we misrepresented anything, or why. But the point was simply that we pointed out to the Patent Office that that area marked "critical area" was essentially a dead air space, and it is. You can see it from the patent. It is simply an area which

is bracketed metal plates and enjoins the wall. And there is no provision for bringing air directly into that space from the room, as we have in the construction which they went to in 1954.

So, we feel this is a case that has real substance. It's not one that can be disposed of on a preliminary motion such as this.

The Court: Is it your position that the alleged infringing devices are not manufactured in accordance with the teachings of the Hollingsworth patent?

Mr. Tilton: That is correct, your Honor. In the [38] Hollingsworth patent 100 per cent of the air, as you recall, was supplied to the economizer from the back wall space. They now have this large opening in front which communicates directly with the economizer, and it is our position that they never could have gotten that wall area right above that cool enough to pass A.G.A. if they hadn't opened it up.

Now, why did they make the change? The only answer Mr. Hollingsworth could give in the deposition in this case was that they wanted to save the price of this piece of metal which went all the way across. But he admits that he knew of the Coleman device before he made this change, before he thought of making it; and he knew of the Coleman principle of operation. So, at the very least, he must have known that he could take that off without doing any detriment to the unit.

The Court: Doesn't the plaintiff say here that this patent in suit is purely a paper patent, that

no device has ever been made according to its teachings?

Mr. Tilton: Yes. I am glad you mentioned that, your Honor. If you will look at the copy of the Giwosky patent that I handed up, I just cannot understand how this point can keep being raised when it is so absolutely contrary to all of the evidence.

You can see from the Giwosky patent itself that it utterly falls. [39]

The Court: I don't suppose it's of any consideration. If it is disputed I couldn't consider it on this motion, anyhow.

Mr. Tilton: I think that is quite true, but if I might just take a moment, your Honor, you recall this leakage passage from the back space that went under and came around—if you will look at the copy of the Giwosky patent you will see that the bottom of the economizer, the space, the barrier plates, and the little passage through there which communicates with the back wall space; and that is the leakage passage on which we were held to infringe, shown right in the patent. So, how in the world can anyone contend that we didn't make a commercial device like the one shown in the patent? It's an absurdity on the face of it.

The Court: Well, I wouldn't decide this motion upon anything that is in dispute. As far as the facts were concerned, I assume—not that it would make any difference—determining validity. It might be of importance on the issue of infringement.

Is there anything further?

Mr. Tilton: Of course, from a legal standpoint it is really unsound, anyhow. It's like arguing that nothing could have infringed the Hollingsworth patent that didn't get 100 per cent of the air from the back wall space. That isn't the issue on the question of infringement. That is, [40] there may be other forms that fall in the broader claim.

I think the issue here, perhaps ironically or not, is just the converse; that we have the question here as to whether enough air goes in this opening that they have provided to affect the operation of the heater, to achieve the result of reducing these wall temperatures and helping them in satisfying the A.G.A. requirements; and that we feel our evidence will show that at the trial.

The Court: This is becoming a very crowded art, isn't it? It wasn't heretofore.

Anything further?

Mr. Tilton: Well, I don't know how far to go with this. There is one point that Mr. Hoegh didn't stress in his oral argument but which is one of the principal points in their brief, and I would like to spend just a moment on it.

In Claim 2 it is stated that the cool room air coming in is in heat exchange relation with this barrier plate, and they claim that that term "heat exchange relation" is new matter and it's improper, wasn't part of the invention, and so on. And yet the original application very clearly stated that this room air was directed on the plate, that it impinged on the plate, and any cool air stream im-

pinging on a heated plate is necessarily in heat exchange relation with it.

Now, Mr. Giwosky signed an affidavit for the plaintiff [41] here, but when asked about this point he very readily agreed, and in his second affidavit, which we have filed, he said, "As stated in my patent application as originally filed this room air impinged on the closure plate—" and that being a quote from the original specification "—and would, thereby, necessarily be in heat exchange relation with the plate."

So, we have simply a quibble over terms. I don't see any reason to spend more time on that.

As your Honor knows, the procedure for obtaining a patent is one of negotiation between the patent attorney and the Patent Office. An inventor develops a particular mechanical structure, but he is in no position to say what his invention is in relation to the prior art as far as a claim definition. That is worked out by a process of negotiation. And to pinpoint the precise point of novelty in relation to the art involves a very formal detail-type of definition. So you frequently find—in fact, I would say you almost always find an inventor didn't originally conceive his invention in the exact identical terms in the final claims. Those are worked out in relation to the art.

There are many cases—we cite some of them on page 4 of our memorandum—which hold that in order to fully protect the real invention great latitude is given in making these amendments.

There is one case quoted in the brief, but there

is [42] another recent one in the Seventh Circuit that brings this out very well. And that is *Glade v. Wahlgreen*. It is cited but not quoted. In that case this question was raised of new matter and the Court of Appeals there stated,

“It is also urged by defendants that the claims in the Martin patent were not the same as claims originally filed and that certain amendments were made of the specifications while the application was pending, hence they assert that the final claim should have been supported by a supplemental oath. A supplemental oath is required only when an applicant claims some phase of his invention quite different than what was originally claimed. The original claims of the Martin patent are directed to the same general subject matter as those in the patent, and we think this contention is without merit.”

Now, it is our position here that we have a clearer case, really, than this *Glade v. Wahlgreen*; that we didn't simply claim the same general subject matter, but we put a searchlight on this feature that we wanted to patent and we followed it all the way through. We had to give up on the broad idea of ventilating the flue with two cool air streams because that was directly met. But there was a very thorough examination of this patent on that one particular feature.

Now, the Siegler Company in their presentation have [43] relied on the *Muncie Gear* decision of which I expect your Honor has heard before. It is the one that is discussed a lot but it actually has

a very limited application. In the Muncie Gear case the patentee had disclosed something in his patent drawing which he didn't regard as an invention at all. He later, many years later claimed an entirely different invention from anything that he originally indicated. And in that case it is equivalent to filing a new application, and the public use bar cut it off, as well as the use by other companies. So that case has a very limited application. And that fact is well brought out.

We cite the Coats Loaders case on page 4 of our memorandum. And in the Coats Loaders case it brings out that Muncie Gear doesn't even apply where you claim something consisting of three elements and you later drop out one element; because obviously the two elements were part of what you were originally claiming. And that is a recent decision in the Sixth Circuit, a 1956 case. So I don't feel that Muncie Gear could possibly have any application here.

They cite four other new cases which I would like to just comment on briefly. The Western Electric case is a Supreme Court decision and dealt with a divisional application. By definition a divisional application relates to a different invention. So that if when you file a divisional application you do have a situation in which you are shifting [44] to an entirely different invention.

And the Dwight and Lloyd case also involved shifting to an entirely different subject matter. The Westinghouse case and the Crown Cork case

both involved divisional applications and followed the same rule.

The Court: Those are the cases cited on page 12 of the defendant's reply brief?

Mr. Tilton: Yes, your Honor, page 12 of their memorandum.

The other case that they particularly rely on in their original brief—and I didn't have time to run this down when we filed our reply—is the case of *Chicago & Northwestern Railway Co. v. Sales*. Now, they say that case means that any change in your claims with reference to another company is at your prejudice and that you can enlarge your claims or change them to cover something an infringer is doing.

Now, the *Northwestern Railway* case was distinguished, and the actual rule as stated in *Hobbs v. Beach*, 180 U.S. 383, which case holds that there is no departure where the original specifications suggest—and the word "suggest" is the one used in the opinion—the final claims. And that is true even where there was a complete element omitted from the claims as originally filed.

So it's the rule of the *Northwestern* case, the [45] *Muncie Gear* case, all of those cases apply where you start off on one track and shift to something entirely different. It isn't just the usual procedure of working out the formulation of your claims in the negotiations.

In closing I would like to mention one other decision, and interestingly enough the case most precisely in point came out of our opponent's brief,

and I didn't notice it until I came out here. And it is the *Wagenhorst v. Hydraulic Steel Co.* case, 27 F. 2d 27, a Second Circuit decision by Judge Dennison, who perhaps next to Judge Learned Hand was one of our finest patent judges.

The Court: 27 F. 2d?

Mr. Tilton: It is at 27 F. 2d 27 and the point is at page 31. And it is cited, incidentally, in another connection in the Siegler brief. But if I might just read from that, because it is so directly pertinent.

In that case, by the way, the facts were that the patentee never appreciated that having lugs attached to this rim was an important part of his invention, although he disclosed it. A competitor came out with it and he filed a claim on it, and this competitor is now being sued, and this is what the court says:

"If this specific form involved invention, he knew that he had made it and reduced it to practice long before, and that he and not the [46] later comer was entitled to the patent. Perhaps, if he had not seen the competing construction, he would not have made the specific claim; perhaps, in the regular prosecution of his application, he would; but, so long as the applicant does not depart from or unduly enlarge the invention actually shown by his specifications and drawings, he may at any time amend his claim, so as to secure his real invention; and it is not controlling that he did not realize his claims were inadequate until he saw the competing device * * *"

And, so, it actually is immaterial whether Cole-

man was stimulated into action to get a better type of claim by seeing the Holly device. The facts are, if it is material, that that was not true.

Mr. Dawson, my partner, was prosecuting the case at that time and he tells me that he had no knowledge whatsoever which led him to try to write a claim to cover the Holly device. He was simply prosecuting a case in relation to the prior art. If that was material—which I don't think it is—he can certainly testify, and he would so testify. But I think the law is as stated in the Wagenhorst case, and so it is not a material issue.

There is one other decision I have a note of here, your Honor, which is pertinent to one phase of this. That [47] case is *Gibson v. Smoot*, 28 F. 2d 123-129. And this case brings out the rule, the common sense rule, actually, that a patentee does not need to conceive of his invention in the same words as finally used in the claims which are drawn in relation to the prior art. That rule is so self-evident that it is rare that you find it in an opinion. But it did come up in that case and there is a square holding on the point.

I think that is all I have, your Honor, unless there are some other areas. We have taken depositions. We have had interrogatories. If we were going to try this case I think we could go on the rest of the day but I don't think it is necessary.

The Court: Very well.

Do you have any reply?

Mr. Hoegh: Well, your Honor, the critical hour is at hand. If I could just have two minutes.

The Court: What do you say to Mr. Tilton's point that this contention of yours that the interposition of Claim 2 after plaintiff's devices appeared on the market, the contention of which is not available to you as long as you are denying infringement?

Mr. Hoegh: Your Honor, I don't believe that that's true. It is enough if the charge of infringement is made. The judge pointed out in the Westinghouse case, 22 F. 2d 823—it was, I believe, that one that the court had this very [48] same situation before it. And we will take it either way, of course. If we don't infringe we are all right, and——

The Court: Well, infringement isn't involved on this motion.

Mr. Hoegh: No it is not. Just the charge of infringement, as I read that case, was sufficient to invalidate the claim that was filed two years after the devices alleged to infringe appeared on the market.

The Court: That's the Westinghouse case in the Second Circuit, 22 F. 2d 277?

Mr. Hoegh: Yes, your Honor. That one or the Dwight v. Lloyd case cited just following it on page 12 of our memorandum.

The Court: What do you say to the point that these were divisional applications?

Mr. Hoegh: Your Honor, I would consider a divisional application to be an amendment. It would have to be an amendment. In my understanding of the patent law you have to present

matters which were originally disclosed before the division could be filed.

And to just elaborate briefly on that disclosure. Again, I'd like to point out that Mr. Giwosky disclosed a problem, an overheating problem at the top of the economizer outlet, and he disclosed one way of solving that problem, and that was to use a third stage air circulation past that [49] particular hot spot. He found such a third stage to be essential to his device in Claim 3, upon which Mr. Tilton relies in saying that the subject matter of Claim 2 was in this case throughout; and even that one defines a third stage of heat exchange. I don't ask you to take my word for it or Mr. Tilton's word for it. It's in the file wrapper as one of the original claims; and it clearly defines an enclosure plate, as it is sometimes called in this application, below which air is discharged and above which air is taken in.

Further, since Mr. Giwosky found that three stages of heat exchange were essential to the operation of his device, as he states in his affidavit; and he also states in his affidavit that the original application was directed to three stages of heat exchange.

The omission of a claim or an element of a claim which was essential to the operation of his device, in my opinion, takes that device outside the scope of what he originally applied for.

On our point that the intervening rights of the plaintiff have invalidated the claim, I would like to read from Webster Electric Company vs. Split-

dorf, 792, which indicates that the test of whether or not new matter is shown is not the same where a claim of intervening rights is made as where a claim of new matter is made, in violation of the statutory prohibition against inserting new matter. The [50] court there states,

“A comparison of these claims as set forth in the patent with the claims in the original application, to say the least, leaves in doubt the question whether they were not so materially enlarged as to preclude their allowance on the original application. But this aside, the evidence establishes to our satisfaction that Cain, the inventor, did not originally intend to assert these amended claims because he considered their subject matter one merely of design and not of invention. And the inference is fully warranted that the intention to do so was not entertained prior to 1918, which was several years after the original application was on file. During all this time their subject matter was disclosed and in general use, and Cain and his assignees, so far as Claims 7 and 8 are concerned, simply stood by and awaited developments.”

It is the position of the plaintiff that that exact same pattern was followed by the defendant in this case. The matter upon which the Coleman Company placed particular stress in getting this patent allowed, the use of room air to flow across the top of the lower box in heat exchange relation to that box top, is one which Mr. Giwosky considered to be merely a detailed design; and I [51] don't think there is anything in either of his affidavits that

would in any way vitiate that statement. And, therefore, the very matter upon which Coleman got this claim allowed was something which he did not consider to be part of his invention.

More than that, he considered the element which was omitted in Claim 2 to be essential to the proper operation of the device or any device which he proposed in his original application, and one which he naturally felt or thought would have utility.

For those reasons we think this claim is invalid.

The Court: The motion will stand submitted, gentlemen?

Mr. Tilton: Unless your Honor would like to go into this question about the invention covered by Claim 3 of the original application. I think I can show very quickly that that is directed to the invention now covered by Claim 2. But I think it is one of the triable issues here.

The Court: Is it disclosed by reading the claim?

Mr. Tilton: I think it is, your Honor. With your background in this field I think it is clear that it recites the barrier plate and recites the hot air come out underneath and cold air going on top, and there is nothing in there at all about two heat exchange stages. That is Claim 1, which we cancelled. [52]

I should be very happy to have it stand submitted, your Honor, as it reads in our brief.

Mr. Hoegh: I think the claim clearly recites, your Honor, that the barrier plate referred to is in the flue and not between what might be called the economizer and the lower box.

The Court: Very well, gentlemen. The motion for summary judgment will stand submitted. [53]

[Endorsed]: Filed August 19, 1958.

[Endorsed]: No. 16154. United States Court of Appeals for the Ninth Circuit. The Coleman Company, Inc., a Corporation, Appellant, vs. The Siegler Corporation, a Corporation, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed: August 20, 1958.

Supplemental Filed January 9, 1959.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

United States Court of Appeals
For The Ninth Circuit

No. 16154

THE COLEMAN COMPANY, INC., a corporation,
Appellant,
vs.

THE SIEGLER CORPORATION, Appellee.

APPELLANT'S CONCISE STATEMENT OF
POINTS ON APPEAL (RULE 17)

Appellant, The Coleman Company, Inc., in accordance with Rule 17(6) of the United States Court of Appeals for the Ninth Circuit makes the following statement of points upon which it intends to rely:

1. The Court erred in granting summary judgment in favor of plaintiff on the ground that Claim 2 of Giwosky Patent No. 2,767,702 is invalid as being anticipated by Browell Patent No. 268,860 and Hollingsworth Patent No. 2,602,441, or as failing to meet the standard of invention because lacking in patentable novelty over said Browell and Hollingsworth patents.

2. The Court erred in holding that the issues of anticipation and invention with respect to Claim 2 of said Giwosky patent in relation to said Browell and Hollingsworth patents involve no triable questions of fact.

3. The Court erred in refusing to accord the Giwosky patent its legal presumption of validity over the prior art merely because the Browell patent was not cited and formally made of record by the Patent Office in the file wrapper of the Giwosky patent.

PARKER, STANBURY, REESE &
McGEE,
DAWSON, TILTON, FALLON &
LUNG MUS,

/s/ By RAYMOND G. STANBURY,
Attorneys for Appellant, The
Coleman Company.

Affidavit of Service by Mail Attached.

[Endorsed]: Filed September 24, 1958. Paul
P. O'Brien, Clerk.

[Title of Court of Appeals and Cause.]

APPELLANT'S DESIGNATION OF
RECORD (RULE 17)

Appellant, The Coleman Company, Inc., a corporation, in accordance with Rule 17(6) of this Court, designates the following as the record which is material to the consideration of the appeal herein:

1. Complaint.
2. Answer and Counterclaim.
3. Answer to Defendant's Counterclaim.
4. Interrogatories to Defendant.
5. Plaintiff's Request for Admissions.

6. Notice pursuant to 35 U.S.C. Sec. 282.

7. Defendant's Reply to Plaintiff's Request for Admissions under Rule 36.

8. Interrogatories to Plaintiff.

9. Plaintiff's Answers to Defendant's Interrogatories.

10. Pretrial Statement.

11. Affidavits, Prior Art Patents, and certified copy of File Wrapper in Support of Plaintiff's Motion for Summary Judgment.

12. Notice of Plaintiff's Motion for Summary Judgment.

13. Memorandum in support of Motion for Summary Judgment.

14. Memorandum in opposition to Motion for Summary Judgment.

15. Affidavits submitted by Defendant in opposition to Plaintiff's Motion for Summary Judgment.

16. Statement of Genuine Issues.

17. Reply to Defendant's Memorandum in Opposition to Plaintiff's Motion for Summary Judgment, (including attached Exhibits A to D).

18. Proposed Findings of Fact and Conclusions of Law.

19. Order on Plaintiff's Motion for Summary Judgment.

20. Clerk's Notice of entry of Summary Judgment.

21. Findings of Fact, Conclusions of Law and Summary Judgment.

22. Notice of Appeal.

23. This Designation.

24. The entire transcript of proceedings of May 12, 1958 before the Trial Court, being the proceedings upon plaintiff's Motion for Summary Judgment.

PARKER, STANBURY, REESE &
McGEE,
DAWSON, TILTON, FALLON &
LUNG MUS,
/s/ By RAYMOND G. STANBURY,
Attorneys for Appellant.

Affidavit of Service by Mail Attached.

[Endorsed]: Filed September 24, 1958. Paul P. O'Brien, Clerk.

[Title of Court of Appeals and Cause.]

APPELLEE'S DESIGNATION OF
RECORD (RULE 17)

Appellee, The Siegler Corporation, in accordance with Rule 17(6) of this Court, designates the following portions of the record for printing in addition to those designated by Appellant as being material to the consideration of the appeal herein.

1. Defendant's Answers to Plaintiff's Interrogatories, dated February 3, 1958.
2. Defendant's Reply to Plaintiff's Request for Admissions under Rule 36 dated February 3, 1958, if the same differs from Item No. 7 in Appellant's Designation.
3. That portion of Volume 6 of the transcript of

proceedings had on trial dated Monday, January 24, 1955, in Civil Action No. 15,886-WM Civil beginning on line 23, page 686, with the words "The Court:" to and including the statement "Mr. Lyon: That is right." line 25, page 687 thereof.

4. That portion of the transcript of Record prepared on Appeal from Interlocutory Judgment No. 14711, Volume I, beginning with the heading "Jack Kice:" on page 283 to and including line 8, page 284, ending with the statement "* * * my general jurisdiction."

Page 312, the last 14 lines, beginning with the words "Now, we have only been * * *" to and including line 2, page 316 ending with the words "* * * that dates back to 1919."

Page 354, beginning with line 4, with the wording "The Court: When you use that term * * *" to and including line 14, page 359, ending with the statement "The Court: Up into the heat exchanger?"

5. That portion of the transcript of Record prepared on Appeal from Interlocutory Judgment No. 14711, Volume II, on page 512, beginning with the heading "Plaintiff's Exhibit Number 11" to and including the drawing designated Plaintiff's Exhibit 1 on page 516.

The entire contents of page 542, being Plaintiff's Exhibit Number 43.

6. The decision of the United States Court of Appeals for the Ninth Circuit rendered April 10,

1956, Case No. 14711, and reported in 233 F. 2d 71.

7. The following portions of the transcript of proceedings before the Special Master, Civil Action No. 15,886-WM Civil:

Volume 1, dated September 10, 1957, page 17, beginning with the heading "Cross Examination," line 11, to and including line 21 of page 22.

Volume 6, dated September 18, 1957, beginning with the heading "Direct Examination," page 556, line 1, to and including line 23, page 568, concluding with the words "* * * of the directors."

Volume 7, dated September 19, 1957, page 722, line 1, beginning with the words "Mr. Hoegh:" to and including line 20, ending with "* * * 1938."

Volume 8, dated September 20, 1957, page 782, line 16, beginning with "Q. By Mr. Hoegh: Mr. Johnson, * * *" to and including line 4, page 783, including the statement, "I told him that we would not."

Page 843, line 11, beginning "Q. By Mr. Hoegh: Mr. Johnson, * * *" to and including line 17, ending with the words "* * * meet A.G.A. tests."

Volume 9, dated September 24, 1957, page 859, from the heading "Walter M. Berry" on line 18 to and including page 939.

Page 940, line 17, beginning with the words "Alwin B. Newton" to and including line 14, page 942, ending with the words "* * * activities of the company."

Volume 10, dated September 25, 1957, page 977, line 14, beginning with the wording "Q. By Mr. Stanbury: Now, will you * * *" to and including line 6, page 984, including the words "* * * it will be received."

Page 1004 from line 4, beginning with "Q: What kind of * * *" to and including line 1, page 1005, ending with the words "* * * of the year."

Page 1069, line 6, beginning "Q: Mr. Newton, * * *" to and including line 15, concluding with the words "* * * get A.G.A. approval."

8. Appellant's concise statement of Points on Appeal (Rule 17) (served on September 23, 1958).

(Items 3-5 and 7 above relate to portions of the record in the related case entitled *The Coleman Company, Inc. vs. Holly Manufacturing Company* Appeal No. 16141. It is requested that these portions of that record be printed even though the parties have stipulated that the Court may consider the entire record and transcript of proceedings in that case without the necessity of reproducing it.)

CHRISTIE, PARKER & HALE,

/s/ By C. RUSSELL HALE,

Attorneys for Appellee,

The Siegler Corporation.

Affidavit of Service by Mail Attached.

[Endorsed]: Filed September 30, 1958. Paul P. O'Brien, Clerk.

[Title of Court of Appeals and Cause.]

STIPULATION INCORPORATING
RECORD BY REFERENCE

It Is Stipulated by the parties hereto, through their respective counsel, that subject to the approval of the Court the entire record and transcript of proceedings in *The Coleman Company, Inc.*, a corporation, vs. *Holly Manufacturing Company*, a corporation, No. 16141, may be deemed part of the record on appeal in this action, without duplication thereof.

PARKER, STANBURY, REESE &
McGEE,

DAWSON, TILTON, FALLON &
LUNG MUS,

/s/ By RAYMOND G. STANBURY,

Attorneys for Appellant,
The Coleman Company.

CHRISTIE, PARKER & HALE,

/s/ By ASHLEY STEWART ORR,

Attorneys for Appellee,
The Siegler Corporation.

So Ordered:

/s/ ALBERT LEE STEPHENS,

Chief Judge, U. S. Court of Appeals
for the Ninth Circuit.

[Endorsed]: Filed October 2, 1958. Paul P.
O'Brien, Clerk.

No. 16154

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE COLEMAN COMPANY, INC., a corporation,

- Defendant Appellant,

vs.

THE SIEGLER CORPORATION, a corporation,

Plaintiff-Appellee.

OPENING BRIEF OF DEFENDANT- APPELLANT THE COLEMAN COMPANY.

PARKER STANBURY, REESE & MCGEE,

RAYMOND G. STANBURY,

315 West Ninth Street,
Los Angeles 15, California,

*Attorneys for Defendant-Appellant
The Coleman Company, Inc.*

Of Counsel:

TIMOTHY L. TILTON,
DAWSON, TILTON, FAILOU & LUNGWUS,

209 South La Salle Street,
Chicago 4, Illinois.

JOHN F. EBERHARDT,
FOLLETON, SUTKIN, SCHOMPEL,
BARTLETT & POWERS,

Fourth National Bank Building
Wichita 2, Kansas.



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No. 16154

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE COLEMAN COMPANY, INC., a corporation,

Defendant-Appellant,

vs.

THE SIEGLER CORPORATION, a corporation,

Plaintiff-Appellee.

OPENING BRIEF OF DEFENDANT- APPELLANT THE COLEMAN COMPANY.

Jurisdictional Statement.

This is an appeal in an action where the jurisdiction of the lower court was based on 28 United States Code, Section 1338, relating to patent causes, and 28 United States Code, Section 2201, relating to declaratory judgments. The appellate jurisdiction of this Court is based on 28 United States Code, Section 1291. The judgment appealed from was entered by Judge Wm. Mathes of the United States District Court, Southern District of California, Central Division, after a hearing on plaintiff-appellee's motion for summary judgment. Judge Mathes granted the motion for summary judgment and held that defendant-appellant's patent was invalid as to the sole claim of that patent which was in issue.

The present case began when plaintiff-appellee, The Siegler Corporation (herein called "Siegler"), filed a com-

plaint for a declaratory judgment that Giwosky patent No. 2,767,702 is invalid or not infringed, which patent is owned by the defendant-appellant, The Coleman Company, Inc. (herein called "Coleman"). Coleman admitted the existence of a controversy with respect to the Giwosky patent, and filed an answer and counter-claim denying that the patent was invalid and charging Siegler with infringement. [R. 3-9.] Siegler responded to the counter-claim. [R. 10.] At Siegler's request the case was transferred to Judge Mathes, and thereafter Siegler filed a motion for summary judgment [R. 46-47], the granting of which resulted in this appeal by Coleman. [R. 125-130.]

The Giwosky patent [R. 314-316] contains two claims. Since it was admitted that Siegler had not infringed claim 1 [R. 291], the motion for summary judgment was directed exclusively to an attack on the validity of claim 2. [R. 46-47.] As the basis for granting Siegler's motion the court held:

"... that claim 2 of the patent in suit is invalid, being anticipated by Patent No. 268,860 to Browell, and Patent No. 2,602,441 to Hollingsworth . . ."

"... and failing in all events to meet the standard of invention, because lacking in patentable novelty. . . ." [R. 128.]

No other ground for holding claim 2 invalid was relied on by the court, although Siegler had urged other grounds in its motion for summary judgment.

The infringement issue was not directly involved in the summary judgment proceeding. However, it should be indicated for purpose of clarity that Coleman's charge of infringement under its Giwosky patent is confined to the new lines of wall heaters which Siegler and its predecessor Holly introduced after Coleman had placed on the market

its wall heaters embodying the Giwosky design and had applied for the Giwosky patent. Holly's original line of wall heaters was based exclusively on the design described in its Hollingsworth patent. Coleman's position is that Holly later modified the design of its heaters to make use of the improvement covered by the Giwosky patent. It is hornbook law, of course, that the ownership of an earlier patent gives no right to incorporate the subsequent improvements of others.

Statement of the Case.

This suit is related to another case which was heard below by Judge Mathes and which is currently on appeal before this Court (*Holly Manufacturing Company v. The Coleman Company, Inc.*, Appeal No. 16141). The plaintiff and defendant in both cases are the same, Holly Manufacturing Company (herein called "Holly") having been a division of Siegler since November, 1955, and Coleman being the appellant in both cases. Consolidation of the hearing of the two appeals will be requested.

The Giwosky patent, owned by Coleman, the defendant-appellant herein, relates to gas wall heaters. This type of heater is installed in the wall of a room between the studs, and contains a gas burner for supplying heat. In the operation of such a device, air is drawn from the room, heated by the device, and then returned to the room for heating purposes.

Some years ago the gas wall heater industry was confronted with the problem of how to maintain cool walls while still achieving good efficiency with the larger capacity wall heaters. One answer to this problem was the gas wall heater design of Hollingsworth patent No. 2,602,441 [R. 317-322], which was originally owned by Holly, and is now owned by Siegler. (A prior opinion of this

Court dealt with the Hollingsworth patent: *Holly Manufacturing Company v. The Coleman Company*, 233 F. 2d 71.) The Giwosky patent represents a different and allegedly better solution to the same problem. [R. 314-316.] Coleman's complaint in the present case is that Holly changed the design of its heaters after learning of the Giwosky improvement and that the modified heaters incorporated the Giwosky invention without license from Coleman.

Both the Giwosky and Hollingsworth designs employ a secondary heater or economizer, which is mounted above the lower or primary heater. In the two designs, however, the structural relationship of the economizer and the primary heater is quite different, as is the mode of operation of the devices (as hereinafter demonstrated).

In granting the Giwosky patent, the United States Patent Office specifically considered the Hollingsworth patent, and held that the Giwosky design represented a patentable advance over that of Hollingsworth. In its examination of the application which resulted in the Giwosky Patent, the Patent Office also considered other representative patents of the prior art, including Bacon Patent No. 786,713 and Derrough Patent No. 1,608,777. [Giwosky Patent File Wrapper, pp. 12-13.]* These patents show that the combination of a primary heater with an economizer in a room heating device was not broadly new either with Hollingsworth or Giwosky.

In the Hollingsworth design, the economizer or secondary heater is supplied with air which is taken in below the primary heater near the floor of the room, passed up—

*This is in evidence as an unnumbered exhibit. It was not printed pursuant to stipulation.

wardly *within the wall spaces outside of and surrounding the primary heater*, and then passed into the lower end of the economizer. After passing through the economizer heating zone (which is formed by a jacket around the flue pipe), the air which has been received from the lower wall spaces is discharged into the room through an outlet near the top of the economizer. This arrangement of the economizer so that it receives air from the wall spaces outside of the lower heater is the characteristic feature of the Hollingsworth design. As will subsequently be discussed in detail, Hollingsworth believed and represented to the Patent Office that it was *essential* to first pass the economizer air through the wall spaces outside of the primary heater in order to solve the hot wall problem while still achieving high efficiency. [R. 317-322, Hollingsworth Patent, col. 4, lines 30-53.] According to the Hollingsworth patent, *all* of the economizer air is to be supplied from the wall spaces. This practice was originally followed to the letter in the commercial heaters manufactured and sold by Holly, the predecessor of Siegler. [R. 80, 87.] Consequently, the wall heaters originally manufactured and sold by Holly were no more anticipatory of the Giwosky heater than was the Hollingsworth patent itself.

In the design of Coleman's Giwosky patent, the economizer is supplied with air which is taken directly from the room *without being first passed through the wall spaces around the lower heater*. [R. 314, air inlets 20-21.] The air for the economizer is taken in at a point well above the floor level and directly opposite the lower end of the economizer. However, since the bottom of the economizer in the Giwosky design is not hermetically sealed where it adjoins the top of the primary heater, a small amount of air can leak through from the lower wall spaces into the economizer. It was this leakage which provided the basis

for the charge of infringement against Coleman on the Hollingsworth patent in the companion case which is again on appeal before this Court.

In the Giwosky design, room air is introduced through the louvered openings 20, 21 [Giwosky patent drawing, R. 314] and is passed over the upper surface of a barrier plate 18. Barrier plate 18 forms the top of the primary heater and is in contact on its underside with hot air within the lower heater as it passes to the grill-equipped outlet port 14 for discharge into the room. After passing over the upper surface of barrier plate 18, the room air passes into the bottom of the packet or pipe 22, which, together with flue pipe 17, comprises the "economizer." The air moves upwardly within the space between the economizer's outer jacket and the flue pipe and then back into the room through a louvered opening 23.

On this appeal, the sole issue is whether it was proper for the lower court *on motion for summary judgment* to hold claim 2 of the Giwosky patent invalid as anticipated by or lacking invention over Hollingsworth Patent No. 2,602,441 [R. 317-322] and Browell Patent No. 268,860. [R. 323-325.]

Appellant's "Statement of Genuine Issues" [R. 90-93] which was filed in opposition to the motion for summary judgment included the following disputed and triable issues:

"(14) Is Claim 2 of the Giwosky patent valid over the prior art?"

"(16) Does Browell Patent No. 268,860 anticipate the invention covered by Claim 2 of the Giwosky patent?"

"(17) Can the Browell patent be combined with the Hollingsworth patent to invalidate Claim 2 of the Giwosky patent?"

Specification of Errors.

1. The court erred in granting summary judgment in favor of Siegler on the ground that claim 2 of Giwosky patent No. 2,767,702 is invalid as being anticipated by Browell patent No. 268,860 and Hollingsworth patent No. 2,602, 441, or as failing to meet the standard of invention because lacking in patentable novelty over said Browell and Hollingsworth patents.

2. The court further erred in holding that the issues of anticipation and invention with respect to claim 2 of said Giwosky patent in relation to said Browell and Hollingsworth patents involved no triable question of fact.

3. The court further erred in refusing to accord the Giwosky patent its legal presumption of validity over the prior art merely because the Browell patent was not cited and formally made of record by the Patent Office in the file wrapper of the Giwosky patent application.

Summary of Argument.

a. The Presumption of Validity Was Ignored.

This appeal presents the unusual situation of a patent being held invalid on a motion for summary judgment where the prior art evidence before the trial court was the same in all material respects as that which had been considered by the Patent Office prior to the granting of the patent. This constitutes a clear disregard of the presumption of validity. The question of validity over the prior art, as represented by the Hollingsworth and Browell patents, could not properly have been considered on a motion for summary judgment. [See Argument Secs. I and II.]

b. The Design Combination of Claim 2 Was Not Anticipated.

The lower court erred in failing to recognize that an adjudication of the validity of claim 2 necessarily involved contested issues of fact. In holding claim 2 invalid, the court committed an even more fundamental error. This claim manifestly does cover a patentable design. [See Argument Sec. III.]

The Giwosky design [R. 314-316] clearly constitutes a patentable advance over the most pertinent prior art, as represented by the Hollingsworth patent. [R. 317-322.] The Patent Office so held. [Giwosky Patent File Wrapper.] The fact that there is a cooperative relationship between the parts of the heater in the Giwosky design which is not anticipated by anything described in the Hollingsworth patent is readily apparent. Hollingsworth taught that it was essential to supply the economizer with air which had been first passed *through the wall spaces outside of and surrounding the lower heater* if the hot wall problem was to be overcome while still achieving high efficiencies. Giwosky departed sharply from this operational concept in that he supplied his economizer with air taken from the room without first being passed through the wall spaces outside of the lower or primary heater.

In the specific structural combination and arrangement covered by claim 2 of the Giwosky patent, the room air for the economizer or upper unit is drawn in at a point opposite the lower end of the economizer (or about midway between the floor and ceiling), and passes over the upper surface of a barrier plate before being introduced into the bottom of the economizer. The barrier plate forms the top of the lower or primary heater, and is in contact

on its underside with the hot air flow within the primary heater. Nothing comparable to this arrangement for supplying air to the economizer is found in the Hollingsworth design.

THE BROWELL PATENT.

The Browell patent [R. 323-325], relied on in the trial court's decision, issued in 1882 and relates to a fireplace chimney. It is one of the prior art patents previously considered by this Court in *Holly Manufacturing Company v. The Coleman Company*, 233 F. 2d 71, at 77. The Browell patent simply illustrates the admittedly old practice of using a jacketed ventilated flue (*i.e.*, an economizer) in conjunction with a fireplace. At the very most, the disclosure of the Browell patent is merely cumulative of that of Bacon Patent No. 786,713 [R. 343-346] and Derrough Patent No. 1,608,777. [R. 341-342.] Both of these patents were cited by the Patent Office in its examination of the Giwosky application.

The Browell patent was held by this Court to be non-anticipatory of the Hollingsworth design. For the same reasons announced by this Court in its former opinion, the Browell fireplace chimney also fails to anticipate the Giwosky design. There is no showing in the Browell reference of a combination in a gas wall heater of a primary heater and an economizer, much less of such a combination wherein the two units are separated by a barrier plate, and are arranged so that cool room air is passed over the upper surface of the barrier plate and into the economizer, while hot air within the primary heater passes in contact with the underside of the barrier plate.

c. Evidence Should Have Been Received on the Meaning of Claim 2.

Claim 2 contains terms and defines elements and their structural relationships which require both factual and expert testimony for their elucidation. [R. 316.] The claim is lengthy, complex, and obviously not self-explanatory, as even appellee has admitted. In connection with its motion for summary judgment appellee filed an affidavit purporting to show that the language "heat exchange relation" as used in claim 2 is not accurately descriptive of Giwosky's invention. [R. 39-44.] Appellant then filed two counter-affidavits relating in part to the meaning of the term "heat exchange relation." [R. 79-84; 87-89.] Manifestly, the language of a claim must first be construed before it can be determined whether the terms of the claim are met by the prior art, and yet in the case at bar the court received no evidence as to the meaning of claim 2 and although there was an obvious dispute as to the meaning. [See Argument, Sec. IV.]

d. Coleman Was Denied the Right to Present Evidence in Support of the Validity of Its Patent.

On the question of the inventiveness of the combination covered by claim 2, the lower court found no issue worthy of trial. Appellant was thereby denied the right to present evidence in support of the validity of its patent. This was grave error. [See Argument, Sec. V.]

Even a combination composed entirely of old elements may be patentable, providing that there is some new co-operative relationship between the parts or that new and

surprising results are accomplished. (*Great A. & P. Tea Co. v. Supermarket Equip. Corp.*, 340 U. S. 147.) In the case at bar, the court held claim 2 of the Giwosky patent invalid on the unproven assumption that the Giwosky design combination involved no new cooperative relationships, and that no new or surprising results were accomplished. Obviously, it is not possible for a court to decide these matters by merely looking at a drawing of a patented combination. Nevertheless, the trial court in the present case without having heard any evidence entered the following finding of fact:

“18. In claim 2 of the Giwosky patent in suit, the various elements set forth as constituting the patented device do not produce any results not produced in the prior art, or any unexpected results, and do not produce in aggregation any result greater than the sum of their separate results, or any result different from the result which in aggregation is produced in the prior art.” [R. 134-135.]

e. Evidence of Non-Obviousness Would Have Been Material.

It is well accepted that the place of a development in the history of a particular art is relevant on the issue of invention. (*Lyon v. Bausch & Lomb Optical Co.*, 224 F. 2d 530, 534-535, 2nd Cir., 1955; *Williams Iron Works Co. v. Hughes Tool Co.*, 109 F. 2d 500, 510, 10th Cir., 1940.) Such evidence may show that prior workers failed to solve the problem although having the same stimulus, thereby creating a strong inference that the combination which finally solved the problem was not an obvious one. Cole-

man should have been entitled to such an inference in the present case. [See Argument, Sec. VI.]

If appellant had been permitted to present evidence in support of claim 2, it would have been shown that the prior art Hollingsworth design was defective, that the defect was discovered by Giwosky, and that the Giwosky design represents the first complete solution to the problem of avoiding objectionably hot walls while still achieving high efficiencies in gas wall heaters. Appellant's evidence would further have shown that in 1954 Holly (the predecessor of appellee Siegler herein) was required to submit its heater for retest by the American Gas Association, and that in order to pass the more stringent AGA test then in force Holly found it necessary to modify the Hollingsworth design to incorporate the essential features of the Giwosky design. Without having given appellant any chance to present such evidence, however, the trial court entered the following finding:

"16. The device described in claim 2 of said Giwosky patent No. 2,767,702 fails to meet the standard of invention required by the laws of the United States because the subject matter of said claim 2 would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art." [R.134.]

ARGUMENT.

I.

The Court Erroneously Disregarded the Presumption of Validity in Holding on a Motion for Summary Judgment That Claim 2 Lacked Validity Over Essentially the Same Prior Art Considered by the Patent Office.

As was stated by this Court in a recent case, *Patterson-Ballagh Corp. v. Moss*, 201 F. 2d 403, at 406:

“Appellants had the burden of proof on the question of the validity of the Moss patent since a presumption of validity arises from the issuance of a patent. [Citing cases.] Reasonable doubts must be resolved in favor of the validity of the patent. The presumption created by the action of the Patent Office is the result of the expertness of an administrative body acting within its specific field and can be overcome only by clear and convincing proof.”

Other cases to the same effect in this Circuit are: *Ralph N. Brodie Co. v. Hydraulic Press Mfg. Co.*, 151 F. 2d 91, 94; and *Park-In Theatres v. Rogers*, 130 F. 2d 745, 747-748. Thus, the infringer of a patent, if he chooses to defend on the ground that the patent is invalid, always has the burden of presenting evidence which clearly overcomes the presumption of validity.

In the case at bar, Siegler did not present any evidence going beyond the prior art patents which were considered by the Patent Office. Nevertheless, the court found that claim 2 was invalid as anticipated by and lacking invention over the prior art. Clearly, such a conclusion cannot be reached on a motion for summary judgment. The fact

that the Patent Office reached a contrary conclusion on essentially the same evidence indicates at least that reasonable minds can differ and that therefore the question of the validity of claim 2 over the prior art necessarily involves a triable issue. This is reversible error: *Glenn v. Southern California Edison Co.*, 187 F. 2d 318, 321 (9th Cir., 1951).

As stated in *Bridgeport Brass Co. v. Bostwick Laboratories*, 181 F. 2d 315, at 316 (2nd Cir., 1950):

“It is clear that under Rule 56, as a prerequisite to granting a motion for a summary judgment, there must be ‘no genuine issue as to any material fact.’ This, of course, is as applicable in patent cases as elsewhere, *Engineering Development Laboratories v. Radio Corporation*, 2 Cir., 153 F. 2d 523, and means simply that if liability is dependent upon any disputed questions of fact, the party opposing the motion has the right to have these questions determined upon a trial.”

In pointing out that the presumption of validity in and of itself should have prevented claim 2 from being held invalid on appellee’s motion for summary judgment, appellant is not saying that a patent claim can never under any circumstances be held invalid on a motion for summary judgment. Where the patent claim is self-explanatory and only covers something that is so notoriously old that its lack of novelty can be determined by judicial notice, then there is obviously no need for a trial. This was the situation in *Park-In Theatres v. Perkins*, 190 F. 2d 137 (9th Cir., 1951). The possibility of such an ex-

ception to the general rule was discussed in *Frank v. Western Electric Co.*, 24 F. 2d 642, at 643 (2nd Cir., 1928), as follows:

“To grant such a motion, it must clearly appear on the face of the patent—that is, the drawings, specifications, and claims—that, resorting to common and general knowledge, one may say that there is a want of novelty and invention, and it is so palpable that any competent evidence which might be offered in support of the patent would not show the fact to be otherwise. If there is any doubt regarding the invalidity or invention, it should result in overruling a motion to dismiss upon demurrer. Complainant should have full opportunity, by offering evidence, to support and justify the grant of the patent.”

The present case is obviously governed by the general rule rather than by the limited exception thereto. It is not even arguable in the present case that it was notoriously old to provide the gas wall heater combination of Claim 2. The prior art fails to disclose any heater combination wherein the primary heater is separated from the secondary heater by a barrier plate, and wherein these elements are arranged so that heated air passes in contact with the underside of the barrier plate while cool air passes in contact with the upperside of the barrier plate and into the lower end of the secondary heater. These elements and structural relationships, however, are clearly defined in claim 2 of the Giwosky patent.

In its order on the motion for summary judgment the trial court stated that:

“(6) the presumption that a patent is valid, as embodying an invention over the prior art, does not subsist as to pertinent prior art not cited or considered

by the Patent Office in passing on the application for the patent (*Jacuzzi Bros., Inc. v. Berkeley Pump Co.*, 191 F. 2d 632, 634 & note 4, 637 (9th Cir., 1951); *Gomez v. Granat Bros.*, 177 F. 2d 266, 268 (9th Cir., 1949), cert. denied 338 U. S. 937 (1950); *Mettler v. Peabody Eng. Corp.*, 77 F. 2d 56, 58 (9th Cir. 1935); and see cases from other circuits collected in *Delco Chemicals v. Cee-Bee Chemical Co.*, 157 F. Supp. 583, 587-588 (S. D. Cal. 1957)."

The above statement is much broader than the rule laid down in the Ninth Circuit cases cited in support thereof, and as applied to the facts of the present case the statement is contrary to common sense. The presumption of validity would be meaningless if it could be entirely circumvented whenever a defendant chose to rely on a prior art patent which, while not officially cited by the Patent Office, was no more pertinent than those cited. The Patent Office follows the necessary procedure of citing patents as *representative* of the prior art, and it would be an impossible administrative burden for the Patent Office to cite every single patent which illustrated substantially the same thing.

The established rule in this Circuit and elsewhere, as held in *Jacuzzi Bros. v. Berkeley Pump Co.*, 191 F. 2d 632, 634 (9th Cir., 1951) is:

"When the *most pertinent prior art* has not been brought to the attention of the administrative body, the presumption is largely dissipated." (Emphasis added.)

When the non-cited prior art patent is no more pertinent than the patents which were cited, the presumption of validity necessarily still subsists. The presumption cannot be regarded as having been weakened by the non-citation of a less pertinent or merely cumulative prior art

reference: see *Artmoore Co. v. Dayless Mfg. Corp.*, 208 F. 2d 1, 4 (7th Cir., 1953); and *Helms Products, Inc. v. Lake Shore Mfg. Co.*, 227 F. 2d 677, 681 (7th Cir., 1955). As stated in the *Artmoore* case:

“It has been held, and we think with logic, that it is as reasonable to conclude that a prior patent not cited was considered and cast aside because not pertinent, as to conclude that it was inadvertently overlooked.”

In reaching the conclusion that claim 2 was anticipated by and lacked invention over the prior art, the trial court indicated that the Browell patent was not officially cited against the Giwosky application. This is true as far as it goes. The trial court made no finding, however, that the Browell patent was more pertinent to the subject matter of claim 2 than the patents specifically cited by the Patent Office. It could not have done so on the evidence before it.

The questions of whether the Patent Office missed the most pertinent prior art or whether the Browell patent was merely cumulative of other patents cited by the Patent Office clearly involve triable issues. The relationship between the Browell patent of 1882 on a fireplace chimney and the subject matter of claim 2 of the Giwosky patent is not so clear and self-evident that this matter can be determined without the presentation of testimony. At the very least, appellant should have been given the opportunity to present evidence showing that the Browell patent would have suggested nothing more to a designer of gas wall heaters than would have been suggested by the officially cited Hollingsworth, Bacon, or Derrough patents.

The trial court proceeded in disregard of these triable issues as presented by Coleman. The “Statement of Genu-

ine Issues” [R. 92-93] which was filed by Coleman in opposition to the motion for summary judgment included the following:

“(18) Did the United States Patent Office overlook the most pertinent prior art in its examination of the Giwosky application?”

“(19) Is the Browell patent No. 268,860 merely cumulative with other patents officially cited against the Giwosky application by the Patent Office?”

II.

The Browell Patent Is Less Pertinent Than the Hollingsworth Patent, Which Was Cited by the Patent Office, and Is at Most Merely Cumulative of Other Patents Cited by the Patent Office.

In its examination of the Giwosky application, the Patent Office officially cited five patents as representative of the prior art. [R. 316, listed at bottom of column 4.] The cited patents include: Hollingsworth Patent No. 2,602,441, Bacon Patent No. 786,713, and Derrough Patent No. 1,608,777.

The Patent Office correctly regarded the Hollingsworth patent [R. 317-322] as the closest prior art, and placed the burden upon Coleman to demonstrate that the Giwosky design combination was patentably different from the Hollingsworth combination. After careful consideration of the matter, the Patent Office held that claim 2 of the Giwosky patent defined a novel and patentable combination in a gas wall heater over the Hollingsworth combination, as also did claim 1 (which covers the combination of claim 2 plus an additional feature not involved here). [Giwosky Patent File Wrapper: see particularly arguments presented on p. 54.]

In its examination of the Giwosky application, the Patent Office did not overlook the fact that jacketed, ventilated chimneys of the kind shown in the Browell patent were known to prior workers in the heating art. The same type of chimneys are illustrated in the Bacon patent and in the Derrough patent. In fact, these patents describe the construction and operation of such heat-economizing chimneys much more clearly and specifically than does the Browell patent.

Both the Bacon patent [R. 343-346] and the Derrough patent [R. 341-342] describe the use of economizing chimneys for the purpose of scavenging heat from the hot gases as they are being discharged through a flue pipe, and supplying the recovered heat to the rooms of a house. This procedure is also illustrated by Browell [R. 323-325] although not as clearly as in the Bacon and Derrough disclosures. The chimney structures are substantially identical in all three of these patents. The flue is surrounded by a jacket or outer pipe, which is provided with pairs of vertically spaced openings so that room air can circulate into and out of the space between the jacket and flue pipe, the room air entering the lower opening, moving upwardly as it is heated within the jacket, and being discharged back to the room through the upper opening.

In the Bacon patent the economizer-type chimney is shown in combination with a fireplace, just as it is in the Browell patent. The disclosure of the Bacon patent does not differ in any material respect from that of McLeod Patent No. 1,361,389, which, together with the Browell patent, has already been extensively considered by this Court (233 F. 2d 71, 76-77, 83). In its prior decision between the same parties, this Court found that the Browell patent was no more pertinent than the McLeod patent to the art of gas wall heaters.

III.

The Design Combination of Giwosky's Claim 2 Is Not Found in the Prior Art.

It is a fundamental rule of patent law that it is the *claim* which must be met by the prior art in order to find anticipation and lack of invention. As recently re-emphasized by the Supreme Court, "it is the claim which measures the grant to the patentee" (*Graver Tank and Mfg. Co. v. Linde Air Products Co.*, 336 U. S. 270, 277). Therefore, it is essential to consider the claim invalidated below, which reads:

"2. In a wall heater and economizer structure, a vertically-extending lower heater casing for housing a combustion chamber, an economizer casing extending above said lower heating casing, a barrier plate extending across said lower heater casing beneath said economizer casing and near the top of said lower heater casing, a flue extending through said barrier plate from within said lower heater casing and through said economizer casing and in spaced relation to the side walls thereof, the upper portion of the front of said lower heater casing providing a heated air outlet adjacent the under side of said barrier plate, the front portion of said lower heater casing projecting outwardly further than the front portion of said economizer casing, said projecting portion including the forward portion of said barrier plate and providing a casing hood portion extending above and over said barrier plate forward portion, said casing hood portion being spaced from said barrier plate forward portion to provide a passage for the flow of air over the upper surface of said barrier plate forward portion, said economizer casing having an air inlet near the bottom of the front thereof and an air outlet above said inlet but adapted to be

below the ceiling level of a room space, said economizer air inlet being positioned inwardly of said barrier plate forward portion and adjacent the upper surface of said barrier plate, said casing hood portion providing a room air inlet means outwardly of said economizer casing air inlet opening, said room air inlet means adapted to communicate on one side with the room atmosphere and on the other with said air passage over the upper surface of the forward portion of said barrier plate, and said room air inlet means being constructed and arranged to cause room air to pass over the said upper surface of the said barrier plate forward portion in heat exchange relation therewith." [R. 316.]

The definition of Giwosky's invention as set out in the above claim was accepted by the Patent Office as clearly distinguishing the prior art. Nevertheless, the trial court made no attempt to apply claim 2 to the prior art. There was no discussion of why claim 2 failed to distinguish the prior art, nor any finding that the prior art met the specific limitations of the claim. The court's order simply announced the conclusion "that claim 2 of the patent in suit is invalid, being anticipated by patent No. 268,860 to Browell, and patent No. 2,602,441 to Hollingsworth." [R. 128.] This was obvious error. As stated by this Court in reversing and admonishing a trial court for deciding the issue of validity on a motion for summary judgment in a patent case:

"An administrative grant of letters patent carries a presumption of validity, but does not state on its face the invention involved or differentiate the device from earlier patents or contrivances already dedicated

to the public. The court must find facts which support three essentials: novelty, utility and invention. Mere conclusions in order to hold a patent valid, such as are contained in this record, are of no avail."

Hycon Manufacturing Company v. H. Koch & Sons, 219 F. 2d 353, 356 (9th Cir., 1955).

The Hollingsworth patent combination [R. 317-322] is expressly distinguished in claim 2. The Hollingsworth combination does not include a "casing hood portion providing a room air inlet means outwardly of said economizer casing air inlet opening." Further, in the Hollingsworth combination there is no "room air inlet means adapted to communicate on one side with the atmosphere and on the other side with said air passage over the upper surface of the forward portion of said barrier plate." Instead, the Hollingsworth combination is completely devoid of the "room air inlet means" defined in claim 2. The language of claim 2 therefore further distinguishes from the Hollingsworth combination in specifying that the room air inlet means is "constructed and arranged to cause room air to pass over said upper surface of said barrier plate forward portion in heat exchange relation therewith."

It should be noted parenthetically that the Holly and Siegler heaters which are charged to infringe Claim 2 differ significantly from the heater described in the Hollingsworth patent. [See Newton Affidavit, R. 80-81, and attached exhibits.] Consequently, Coleman's position on the issues of validity and infringement are entirely consistent.

The fireplace chimney of Browell [R. 323-325] is even further removed from the subject matter of Giwosky's claim 2. In the first place, the Browell patent is not

concerned at all with “a wall heater and economizer structure,” nor is a fireplace describable as “a vertically-extending lower heater casing for housing a combustion chamber.” Furthermore, the Browell patent does not disclose a “barrier plate extending across said lower heater casing beneath said economizer casing and near the top of said lower heater casing, . . . the upper portion of the front of said lower heater casing providing a heated air outlet adjacent the under side of said barrier plate.” Similarly, there is no “casing hood portion extending above and over said barrier plate forward portion, said casing hood portion being spaced from said barrier plate forward portion to provide a passage for the flow of air over the upper surface of said barrier plate forward portion,” nor is there a “room air inlet means adapted to communicate on one side with the room atmosphere and on the other side with said air passage over the upper surface of the forward portion of said barrier plate, and said room air inlet means being constructed and arranged to cause room air to pass over said upper surface of the said plate forward portion in heat exchange relation therewith.”

Following the entrance of the court’s order holding claim 2 invalid, Siegler’s counsel prepared findings which were thereupon adopted as the findings of the court. [R. 130-137.] These findings, however, do not recite any facts from which it can be concluded that the limitations of claim 2 fail to distinguish the prior art. Finding 12 which relates to the Browell patent merely states:

“The patent to Browell No. 268,860 discloses that it is old in the art to employ a metal flue construction on a primary heating appliance wherein air is taken into a casing above the flue at a location immediately above the primary heating appliance and discharged

below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located. Claim 2 of the Giwosky patent No. 2,767,702 describes a metal flue construction 17 on a primary heating appliance 10 wherein air is taken into a casing 22 about the flue at a location 20 immediately above the primary heating appliance and discharged below a barrier 26 in the casing at a location near the ceiling of the room in which the heating appliance is located, and hence claim 2 of said Giwosky patent No. 2,767,702 does not differ patentably from the device shown in the Browell patent No. 268,860." [R. 132-133.]

The fact statements in the above finding are substantially correct, but they do not support the conclusion that claim 2 "does not differ patentably from the device shown in the Browell patent." All of the statements made with respect to the Browell patent would apply equally well to the Bacon patent or the Derrough patent, or to Holly's own Hollingsworth patent. What has been done is to select only certain general features of similarity for the comparison ostensibly being made in Finding 12. The vital distinguishing features of the Giwosky design combination as defined in claim 2 have simply been ignored. As discussed above, the Browell fireplace chimney is distinguished in almost every line of claim 2.

Finding 13 does not provide any better basis for the conclusion reached by the trial court. This finding simply states:

"The patent to Hollingsworth, et al., No. 2,602,441, discloses that it is old in the art to employ in a wall heater having a primary heating element a secondary heat exchanger to heat a stream of air in addition to that heated by the primary heating element, and

the patent to Browell No. 268,860 discloses that it is old in the art to provide a secondary heat exchanger employing a metal flue construction on a primary heating appliance wherein air is taken into a casing about the flue at a location immediately above the primary heating appliance and discharged below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located. Claim 2 of the Giwosky patent No. 2,767,702 describes a wall heater employing a primary heating appliance and having a flue construction which serves as a secondary heat exchanger wherein air is taken into a casing about the flue at a location immediately above the primary heating appliance and discharged below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located, and hence claim 2 of said Giwosky patent No. 2,767,702 does not differ patentably from the combination of the device shown in the Hollingsworth patent No. 2,702,441 and Browell patent No. 268,860." [R. 133-134.]

Here again the conclusion does not follow from the stated facts. If claim 2 only covered what it is said to cover in Finding 13 and nothing more, it never would have been allowed in the first place. The Hollingsworth patent in combination with the Bacon patent or the Derrough patent (all of which were before the Patent Office) would have provided a full anticipation.

The trial court has obviously erred by failing to measure the patentability of the Giwosky design combination by the specific, limited terms of claim 2, and instead has erroneously substituted a generalized description of the Giwosky heater which ignores the vital differences. The specific language of a patent claim may not be ignored in assessing the validity of the claim in relation to the

prior art (*Mojonnier Dawson Co. v. U. S. Dairy Sales Corp.*, 251 F. 2d 345-351, 7th Cir., 1958). On the contrary, the claim is precisely what defines and measures the grant (*Graver Tank and Mfg. Co. v. Linde Air Products Co.*, 336 U. S. 270, 277.)

IV.

The Court Erred in Considering the Validity of Claim 2 Over the Prior Art Without First Resolving the Conflict as to the Meaning of This Claim.

Where there is a conflict over the interpretation of the terms of a patent claim, and especially where such an issue involves the consideration of affidavits and counter-affidavits, this Court has made it clear that it is improper to consider the matter on a motion for summary judgment. (*Park-In Theatres v. Perkins*, 190 F. 2d 137, 142; *Bowers v. E. J. Rose Mfg. Co.*, 149 F. 2d 612, 615.) The views expressed by this Court in the foregoing cases were disregarded by the trial court in the case at bar.

Claim 2 defines the room air inlet as being “constructed and arranged to cause room air to pass over the said upper surface of said barrier plate forward portion *in heat exchange relation* therewith.” [R. 316, col. 4, lines 39-42.] The meaning of the emphasized language is the subject of a dispute between the parties hereto. [R. 39-44, especially par. 11; 79-84, especially pars. 9 and 10.]

In connection with the motion for summary judgment, Siegler presented an affidavit [R. 39-44] signed by Harry L. Giwosky, the patentee of the Giwosky patent in suit. Mr. Giwosky is now employed by the David White Company. He apparently signed the affidavit, which was prepared by Siegler’s attorneys, without fully considering the inferences which might be drawn from certain state-

ments made therein. For example, the Giwosky affidavit filed by Siegler stated:

“Whether or not this room air is in heat exchange relationship with the barrier plate is of no consequence, and I have never regarded that such heat exchange relation is a part of the invention for which I have filed said application.” [R. 42.]

On the strength of the above statement, Siegler’s attorneys contended that the terms “heat exchange relation” were misdescriptive of the Giwosky heater combination. [R. 52-53.] When Mr. Giwosky was later asked about this, however, he executed a further affidavit [R. 87-89] which places the matter in quite a different light. The second Giwosky affidavit, which was filed in behalf of Coleman, states:

“During the design and experimental work leading to the wall heater described in my patent 2,767,702, I first encountered a problem of overheating in the area immediately above the closure plate of the primary heater box. To overcome this problem I provided an opening in the heater just above this closure plate through which cool room air can circulate. As stated in my patent application as originally filed, this room air ‘impinged upon the closure plate’, and would thereby necessarily be in heat exchange relation with said plate. The ultimate objective was to reduce the heat transferred to the adjacent wall members of the room in which the heater would be installed. In my opinion the room air inlet just described accomplished this objective.” [R. 87-88.]

An affidavit by Coleman’s vice-president in charge of design and research, Alwin B. Newton, is to the same effect. The Newton affidavit [R. 79-86], which was filed

by appellant in opposition to the motion for summary judgment, states:

“I have read the affidavit of Harry L. Giwosky which has been filed by the plaintiff Siegler. I am in complete agreement with Mr. Giwosky’s statement that one of the principal areas where overheating occurs in gas wall heaters is that marked ‘A’ on the patent drawing attached to Mr. Giwosky’s affidavit. I further agree with Mr. Giwosky’s statement that the object of providing a room air inlet opening immediately above the closure plate was to correct the overheating in that area. There was no need, as indicated by Mr. Giwosky, to cool the closure plate as such. However, I am sure that Mr. Giwosky did not mean to convey any such erroneous idea as that the ‘impingement’ of the room air on the upper surface of the closure plate does not function as a means for reducing the temperatures at the lower end portion of the room wall (the area identified by the letter ‘A’). Obviously it does. Whenever a stream of cool air contacts a hot metal plate it is necessarily and inevitably ‘in heat exchange relation’ with the plate. Thus, the circulation of room air over the closure plate as illustrated and described in the Giwosky patent will lower the temperature of the closure plate, thus in-turn reducing the amount of heat radiated to the surrounding room wall elements.”
[R. 83.]

Clearly, the case at bar is one “in which factual presentation is necessary to make clear the significance of the patent either because of conflicting interpretations of its claims or because the patent, in its nature, is difficult to understand” (*Park-In Theatres v. Perkins*, 190 F. 2d 137, 142 (9th Cir., 1951).) Under such circumstances a summary judgment proceeding is manifestly improper.

V.

Coleman Was Denied the Right to Present Evidence Either on the Non-Obviousness of the Giwosky Combination, or That the Combination Involves a New Cooperative Relation Between the Elements and That Unexpected Results Are Obtained.

In support of the validity of a combination patent, the patent owner may present evidence showing that the combination was not obvious (*Lyon v. Bausch & Lomb Optical Co.*, 224 F. 2d 530, 534-535 (2nd Cir., 1955)), or that the combination involves a new cooperative relation between the elements which produces new results (*Great A. & P. Tea Co. v. Supermarket Equip. Corp.*, 340 U. S. 147, 152). Although no evidence was heard by the trial court on either of these issues, the following findings were adopted:

“16. The device described in claim 2 of said Giwosky patent No. 2,767,702 fails to meet the standard of invention required by the laws of the United States because the subject matter of said claim 2 would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art.” [R. 134.]

“18. In claim 2 of the Giwosky patent in suit, the elements set forth as constituting the patented device do not produce any result not produced in the prior art, or any unexpected result, and do not produce in aggregation any result greater than the sum of their separate results, or any result different from the result which an aggregation is produced in the prior art.” [R. 134-135.]

The court's adjudication of these fact questions would have been improper on a motion for summary judgment

even if both parties had consented (*Hycon Manufacturing Company v. H. Koch & Sons*, 219 F. 2d 353, 9th Cir., 1955). In the case at bar appellant most emphatically did not consent. Appellant's position on the validity of claim 2 was diametrically opposite to that of appellee and any trial of the issue of validity necessarily involves the subsidiary issues of whether the combination is obvious and whether it produces new and unexpected results. There is no question of the materiality of such issues nor of the disputed nature of the validity of claim 2. It was therefore completely beyond the power of the trial court to adjudicate such matters on the motion for summary judgment. As was held by this Court in the *Hycon* case (p. 355):

"The trial court exceeded the permissible limits of determination of disputed questions without trial. A motion for summary judgment cannot be granted simply because both sides move for it. An indispensable prerequisite to such a judgment is the absence of a material question of fact. But it is obvious that there were postulates of fact involved in the diametrically opposite positions of the respective litigants."

VI.

The Giwosky Combination Was Non-Obvious, and It Does Involve a New Cooperative Relation Producing New and Surprising Results.

On the issue of obviousness, even the limited evidence before the court on the motion for summary judgment is sufficient to create a strong inference of non-obviousness. The Hollingsworth heater was the immediate fore-runner of the Giwosky wall heater, and Hollingsworth is presumably a man of at least ordinary skill in the wall heater art. It is therefore quite significant that the Giwosky heater is based on a principle of operation which is directly

contrary to the one taught by Hollingsworth, and originally believed by him to be essential for achieving the results that are claimed in the Hollingsworth patent.

Hollingsworth thought that it was necessary to supply his economizers with air which had first been passed through the wall spaces *outside of and surrounding the lower heater*. As he described the matter, it was not otherwise possible to solve the hot wall problem while still achieving a high efficiency of operation. This is made unmistakably clear in the following language from the Hollingsworth patent [R. 320, col. 4, lines 30-43]:

“By drawing the cold air up around the sides or the back, or both, of the lower box, the neighboring wall surfaces are cooled and more fuel may be burned safely without attaining excessive lower wall temperatures. Hence, the heating capacity of the apparatus is increased. Moreover, the air for the upper heat exchange, because it is drawn from a low level has a lower temperature, so that the heat transfer from the upper radiator is increased. In this way the amount of heat imparted to the air passed through the upper box (i.e. in the conduit around the upper radiator) is increased, with a resulting improvement in over-all heating efficiency.”

In the Hollingsworth heater, 100% of the economizer air is supplied from the *lower* wall spaces, and, as shown by the statements just quoted this was believed by Hollingsworth to be essential for the proper operation of an economizer in combination with a primary wall heater. Therefore, on this evidence alone, there is considerable support for the inference that it could not have been “obvious” to depart from the beliefs and teachings of Hollingsworth, as did Giwosky, and to develop a wall heater combination wherein the economizer is supplied

with air *directly from the room*. Manifestly, at the time Hollingsworth developed his combination, none of the old patents on fireplace chimneys, such as the Browell patent or the Bacon patent, made it obvious to him that an economizer could be successfully integrated with a primary wall heater in the manner later developed by Giwosky.

If Coleman had been permitted to try the issue of the validity of claim 2, it would have introduced other evidence tending to reinforce the inference of non-obviousness of the Giwosky combination. Coleman's evidence would have shown that Hollingsworth was mistaken, that what he believed to be essential and beneficial was actually non-essential and detrimental, and that the results which Hollingsworth sought are not in fact achieved by his combination, but instead were achieved for the first time by the Giwosky combination. [See Giwosky affidavit, R. 87-89.] It seems highly probable, and certainly it is at least arguable, that the Hollingsworth combination never would have passed its original American Gas Association test in 1950 if the test of wall temperatures had been conducted on a floor to ceiling basis as was later required by the 1954 AGA regulations. The evidence would further have shown that Holly (Siegler's predecessor) would not have been able to get its product re-approved by AGA in 1954 if its heater had not been modified to incorporate the Giwosky design and principle of operation.

As can readily be seen, such evidence is relevant not only to the issue of validity but also to the issue of infringement, which issue was not considered at all in the summary judgment proceeding.

At the trial, appellant would also have presented engineering test data demonstrating that the Giwosky heater combination involves a new functional relationship between the elements which produces new and surprising results. [See Newton affidavit, par. 8, R. 82.] As already indicated, the Hollingsworth patent teaches that the use of lower wall space air in the economizer produces cooler walls and higher efficiencies than would otherwise be obtained. Coleman's evidence would have directly contradicted this, demonstrating that in fact the use of lower wall space air in the economizer is of no benefit in improving the efficiency of the heater, and that it actually has a detrimental effect on wall temperatures. On the other hand, when air is supplied to the economizer according to the Giwosky principle of operation, there is no impairment in the heating efficiency and the problem of hot walls is completely overcome.

Conclusion.

For all of the reasons set out above, it is respectfully submitted that the trial court erred in holding claim 2 invalid on a motion for summary judgment. It was both legal and factual error to hold that this claim was not supported by a presumption of validity merely because the Patent Office had not formally cited the Browell patent. This prior art patent is clearly less pertinent than the Hollingsworth patent, which was cited by the Patent Office, and is at most merely cumulative of the cited Bacon and Derrough patents. At the very least, this question itself was a triable issue.

Since the interpretation of claim 2 was shown to be a matter that was in dispute, the court erred in failing to hear evidence before construing the claim. The issue of how this claim should be construed is of necessity preliminary to the issue of whether the language of the claim describes only elements and structural relationships which are found in the prior art. In any event, there was no evidence before the court that the specific combination of claim 2 was anticipated by the Hollingsworth patent or the Browell patent. It was obvious error for the trial court to so conclude on the basis of a purported comparison between the Giwosky combination and these prior art patents, which comparison referred to only certain elements while completely ignoring the vital distinguishing features of the Giwosky combination.

The trial court manifestly erred in deciding contested issues of fact without benefit of trial. Appellant was given no opportunity to present evidence in support of the validity of its patent. There was no trial on the material issues of whether the Giwosky combination was non-obvious, and whether the combination involves a new functional relationship which produces new and unexpected results. Nevertheless, the court entered findings of fact which conclusively adjudicated these issues against appellant.

Any doubt on the matter of whether triable issues were involved should be resolved in favor of Coleman as the party resisting the motion for summary judgment (*Haseltine Research v. General Electric Co.*, 183 F. 2d 3, 7, 7th Cir., 1950). As held in the *Haseltine* case, appellant

should have been given an opportunity to make a record in the District Court so that the issue of validity "may be adequately investigated."

The relief which appellant seeks is to have this Court reverse the wrongful invalidation of claim 2 on summary judgment, and to remand this case for further proceedings.

Respectfully submitted,

PARKER, STANBURY, REESE & MCGEE,

By RAYMOND G. STANBURY,

*Attorneys for Defendant-Appellant,
The Coleman Company.*

Of Counsel:

TIMOTHY L. TILTON,

DAWSON, TILTON, FALLON & LUNG MUS,

209 South La Salle Street,
Chicago 4, Illinois.

JOHN F. EBERHARDT,

FOULSTON, SIEFKIN, SCHOEPP EL, BARTLETT & POWERS,

Fourth National Bank Building,
Wichita 2, Kansas.

APPENDIX.

Table of Exhibits.

[Explanatory Note: All exhibits were introduced by attachment to documents on file, or were incorporated by reference to the companion case now on appeal before this Court (No. 16141), and were not assigned the usual serial exhibit numbers or letters. Under the "Identification" column below appear references to the pages on which the exhibit is reproduced, while the page references under the "offered" column identify the document to which the exhibit was attached whenever this is the case. The references under the "Received" column indicate where the Trial Court accepted the exhibits.]

<u>Exhibit</u>	<u>Identi- fication</u>	<u>Offered</u>	<u>Received</u>
Giwosky Patent 2,767,702	314-316	46	268
Hollingsworth Patent 2,602,441	317-322	46	268
Browell Patent 268,860	323-325	47	268
Cayot Patent 2,702,539	327-335	117	268
Snyder Patent 2,093,492	336-340	117	268
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Second Giwosky Affidavit	87-89	77-78	259-260
Exhibits 11, 12 & 43 from Appeal No. 16141 (Case No. 15,886)	153-159	277

*This exhibit is part of the record on appeal but was not printed pursuant to stipulation.

No. 16154

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE COLEMAN COMPANY, INC., a corporation,

Defendant-Appellant,

vs.

THE SIEGLER CORPORATION, a corporation,

Plaintiff-Appellee.

BRIEF OF PLAINTIFF-APPELLEE THE SIEGLER CORPORATION.

CHRISTIE, PARKER & HALE,

JAMES B. CHRISTIE,

C. RUSSELL HALE,

595 East Colorado Boulevard,

Pasadena, California,

Attorneys for Plaintiff-Appellee

The Siegler Corporation.

Of Counsel:

RICHARD B. HOEGH,

548 South Spring Street,

Los Angeles 13, California.

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THE COLEMAN COMPANY, INC., a corporation,
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Plaintiff-Appellee.

**BRIEF OF PLAINTIFF-APPELLEE THE
SIEGLER CORPORATION.**

Introduction.

In view of the long history of litigation between the parties involving the subject matter of the patent in suit—wall heaters—a trial on the validity of Coleman's Giwosky patent would be useless. In the previous litigation between the parties, both this Court and the District Court thoroughly considered the subject matter of the case at bar.* (*Coleman Co. v. Holly Mfg. Co.*, 233 F. 2d 71 (9th Cir., 1956).)

The District Court, on the basis of facts which are not disputed or which have been laid at rest in the previous case, granted a summary judgment declaring the one claim of the patent in suit allegedly infringed by the plaintiff to be invalid. On the question of validity of the

*In November, 1955, The Siegler Corporation, appellee, acquired the assets of Holly Manufacturing Company, and carried on the wall-heater business built up by Holly.

patent in suit, no genuine issue of material fact exists. As in the case of *Vermont Slate Co. v. Tatko Bros.*, 233 F. 2d 9, 10 (2nd Cir., 1956):

“The prior art and the patent claims are without expert aid, easily understandable . . . nor did it require expert testimony to make it plain that the differences between the prior art and the patent claims were obvious to persons having ordinary skill in the trade at the time the alleged invention was made . . .

“Summary judgment represents a most useful legal invention to save time and expense, by the avoidance of a trial, when there exists no material fact-issues. It may well be that, in a patent case, a Judge should exercise unusual caution in granting a summary judgment. But there are patent cases when it would be an absurd waste of time and effort to deny such a judgment. *This is such a case.*” (Italics added.)

Coleman Asserted Infringement For Nothing More Than Nuisance Value.

Appellant states that this action commenced when the plaintiff appellee filed its complaint for declaratory relief in the court below. (Op. Br. p. 1.) Only in a narrow technical sense is the statement correct. As must be obvious to all, Coleman's assertion of infringement is inextricably woven into its stubbornly litigious conduct which it undertook to cover its intentional and deliberate infringement of the Hollingsworth patent owned by Holly, previously considered by this Court, and now before this Court in Appeal No. 16141 concerning the accounting for Holly's damages.

As will be developed in more detail later in this brief, the Giwosky patent is directed to something that Coleman represented to Holly that Coleman was going to put on

the market in 1953, but never did. [R. 153-157, 164, 165.]* Until 1957, after the injunction in the prior litigation had become final and Coleman was held in contempt, it continued to follow Holly. When at long last and as a result of the contempt proceeding Coleman quit copying Holly, it did not adopt the Giwosky design but instead began to manufacture wall heaters that had no economizer at all. [Acc. R. 1623.] This course of conduct establishes clearly that Giwosky's design was impractical and that his patent is no more than paper. Coleman's conduct also indicates that the Giwosky patent was only applied for to gain whatever nuisance value it might have in Coleman's stubborn, protracted and vexatious litigation against Holly. The following facts are significant:

1. The Giwosky patent was not applied for until long after the Hollingsworth patent issued and the Holly devices were on the market.

2. The Giwosky application was not filed until after Giwosky had seen the Holly devices which the Coleman company, Giwosky's assignee, "faithfully copied with immaterial variances." (233 F. 2d 71, 84.)

3. The Giwosky patent was applied for after the litigation with Holly had been started.

4. The single claim which Coleman alleged to be infringed by Siegler was added to the Giwosky application after the alleged infringing devices had been on the market for a substantial period of time. (File wrapper, Amendment dated July 11, 1956.)

5. The single claim which Coleman alleged to be infringed by Siegler was added to the application after this

*In this brief the record references are designated "R." to denote the record in *Coleman v. Siegler*, No. 16154; "Acc. R." to denote the accounting record in *Coleman v. Holly*, No. 16141; and "Orig. R." to denote the original record in *Coleman v. Holly*, No. 14711.

Court held Coleman to be a deliberate infringer of the Hollingsworth patent. (File wrapper, Amendment dated July 11, 1956.)

6. Coleman never put any patent marking on its wall heaters pertaining to the Giwosky patent or the application for Giwosky's patent. [R. 26.]

7. Coleman's counsel in the prior litigation, Mr. Lyon, intimated at the trial that the application for the Giwosky patent was made simply to keep someone else from filing on the same thing. The colloquy with reference to the Giwosky application is most revealing:

"The Court: Upon what basis does the defendant claim an invention was taking in of the air in the front?

Mr. Lyon (Speaking for Coleman): I do not know, your Honor. We haven't got a patent. *Many manufacturers, as your Honor knows, will file an application to protect himself from having somebody else file on the same thing.** Now, I don't know what the principle was that they filed on this. We didn't say we had a patent. In fact, I can state to this Court that we don't.

The Court: I assume someone made an affidavit with respect to the patent.

Mr. Lyon: That he thought it was an invention at the time he drew it. But I can tell the court right here and now that the [Giwosky] application was rejected on the Browell patent, if you are interested in that. I don't think it is germane to this issue." [R. 160-161.]

Mr. Lyon was mistaken, at least, when he told the trial court that the Browell patent had been cited in the

*Emphasis ours.

Giwosky application. It never was, although Coleman had ample opportunity and more than a year to call the Browell patent to the attention of the Patent Office after Mr. Lyon made his remark. But Mr. Lyon was probably quite correct when he suggested that the only reason the Giwosky application was filed was to keep someone else from filing on the same thing. In short, there are strong indications that the Giwosky patent was obtained purely for its nuisance value.

8. That this is the case is further borne out by the fact that Coleman did not send Holly a notice of alleged infringement of the Giwosky patent until on or about December 31, 1956, three days after the final injunction prohibiting infringement of the Hollingsworth patent was served on Coleman. [R. 136; Acc. R. 39.] Coleman's notice of alleged infringement appears to be "Tit for tat. You sued us. Now we sue you!"

Despite the fact that the Holly heater does not infringe [Acc. R. 1205], despite the fact that the Giwosky patent is a mere paper patent that no one has used, not even Coleman, and despite the fact that the inventor Giwosky found that the device of Claim 2 would not work [R. 41, 43], Coleman asserted infringement for whatever nuisance value it could derive in the accounting. The two cases have thus been interwoven by Coleman. Both cases are now before this Court, and Coleman has indicated that it will seek "consolidation of the two appeals." (Acc. Op. Br. 23.)

Coleman's course of conduct with respect to the Giwosky patent smacks of blatant insincerity—one more link in its stubbornly litigious conduct for which it was rightly penalized by the District Court in the accounting in the prior case.

Statement of the Case.

The patent in suit, No. 2,767,702 granted October 3, 1956, to Giwosky and assigned to Coleman, the defendant-appellant, contains only two claims. During discovery proceedings, Coleman admitted that Claim 1 is not infringed by any devices made by Siegler (plaintiff-appellee) or its predecessor Holly. [R. 29, 259.] Consequently, only Giwosky's Claim 2 is involved in this action.

On Siegler's motion for summary judgment, the District Court held that Claim 2 of the Giwosky patent is invalid "for want of invention over the prior art" as represented by Hollingsworth patent No. 2,602,441 granted July 8, 1952 and Browell patent No. 268,860 granted December 12, 1882. [R. 136.] In arriving at this decision the District Court had before it (in addition to the Giwosky patent, its file wrapper history, and the Hollingsworth and Browell patents) the entire record of the prior litigation between the parties, over which the Court had presided. This was stipulated by the parties at the Court's request. [R. 276-277, 312.] All three patents, Giwosky, Hollingsworth, and Browell, figured prominently in the prior litigation and at this late date there can be no real dispute about what these patents claim or disclose.

In the prior litigation, the Hollingsworth patent was in suit. The Browell patent was one of the principal references relied upon by Coleman in an effort to show that its heaters were built according to the teachings of the prior art. The Giwosky patent represents a heater design that Coleman falsely represented to Holly that it would make and sell in order to avoid the Hollingsworth patent. [R. 153, 164, 165.] The devices of all three patents were thoroughly explored in the prior litigation and

the record of the prior litigation contains abundant evidence about all three. The facts about all of them are indisputable. They are admitted by Coleman, judicially determined by the trial court and this Court of Appeals, or undisputed by the parties.

The Giwosky Patent Is a Mere Immaterial Variation From the Prior Art.

Claim 2 of the Giwosky patent, the only claim in issue in this litigation, reads as follows:

“In a wall heater and economizer structure, a vertically-extending lower heater casing for housing a combustion chamber, an economizer casing extending above said lower heating casing, a barrier plate extending across said lower heater casing beneath said economizer casing and near the top of said lower heater casing, a flue extending through said barrier plate from within said lower heater casing and through said economizer casing and in spaced relation to the side walls thereof, the upper portion of the front of said lower heater casing providing a heated air outlet adjacent the under side of said barrier plate, the front portion of said lower heater casing projecting outwardly further than the front portion of said economizer casing, said projecting portion including the forward portion of said barrier plate and providing a casing hood portion extending above and over said barrier plate forward portion, said casing hood portion being spaced from said barrier plate forward portion to provide a passage for the flow of air over the upper surface of said barrier plate forward portion, said economizer casing having an air inlet near the bottom of the front thereof and an air outlet above said inlet but adapted to be below the ceiling level of a room space, said economizer air inlet being positioned inwardly of said barrier plate

forward portion and adjacent the upper surface of said barrier plate, said casing hood portion providing a room air inlet means outwardly of said economizer casing air inlet opening, said room air inlet means adapted to communicate on one side with the room atmosphere and on the other with said air passage over the upper surface of the forward portion of said barrier plate, and said room air inlet means being constructed and arranged to cause room air to pass over the said upper surface of the said barrier plate forward portion in heat exchange relation therewith."

In the earlier case of *Holly v. Coleman*, the Giwosky patent had been applied for but had not been issued at the time this Court found Holly's patent valid and infringed. As originally applied for, the application related to a wall heater in which there were at least three distinct stages of heat exchange. The first stage was around the primary heater in the lower box, the second stage was around the lower portion of the flue in the so-called economizer, and the third stage was around the upper portion of the flue and exhausted warmed air into the attic of the house in which the heater was installed or into the atmosphere. [R. 69.] At the trial of the case of *Holly v. Coleman*, Coleman's expert, Mr. Kice, testified with respect to the Giwosky application and Exhibit Z which he had before him:

"The second stage is shown in green, the ventilation air passage is shown in green, and includes an independent air source built into the top of the cabinet shell.

"We believe it is basically different and have applied for patent on it." [Orig. R. 341.]

During the accounting, Mr. Dawson, Coleman's patent attorney who prosecuted the Giwosky application before the Patent Office, testified that in the Giwosky application, "the important feature was that instead of bringing air in from the bottom of the casing around the lower heater (as shown in Hollingsworth) that the air was admitted freely through a vent in the very front of the economizer, so that the room air could be utilized in cooling the top of your heater." [R. 163.]

Mr. Dawson further testified that an exhibit [shown in Orig. R. 516] which the trial court had before it in the case of *Holly v. Coleman* included a sketch of a wall heater which was identical with the drawing in the patent in suit. [R. 164-165.] Therefore, in the record in the prior case the trial court had before it the Giwosky disclosure and authoritative interpretations of what was covered by the Giwosky patent application. This Court found any differences between what was there presented and the Holly patent to be mere "immaterial variances" in construction claimed to affect the passage of air from the bottom of the competing devices. (233 F. 2d 71, 84.)

By Contrast the Reference Hollingsworth Represented a Real Contribution to the Home-Heating Art.

As this Court pointed out, Hollingsworth *et al.*, "parted company" with the prior art and created "something new in overall construction and functional operation—a compact unitary wall device which could easily be adapted to the modern pattern and mode of living under conditions of urban life." (233 F. 2d 71, 84.)

The Hollingsworth patent was the patent in suit in the prior litigation and is concerned with a gas-burning wall heater "of a size and shape and so designed as to be easily fitted into the wall of a room between two studs in

a standard wall partition.” (233 F. 2d 71, 73.) The Hollingsworth heater comprises in part a “main” gas-fired heater disposed in a lower box in the lower part of the wall and a secondary heat exchanger or “economizer” mounted in the wall immediately above the main heater. The flue from the main heater passes through the economizer and is cooled by air drawn into the economizer from the space in the wall around the back and sides of the lower box, this air being subsequently discharged into the room through a grille in the economizer near the ceiling.

Prior to the Hollingsworth invention, wall heaters were subject to a number of serious objections, as set out in detail by this Court in its decision in the prior case. (233 F. 2d 71, 81.) The Hollingsworth heater overcame these objections by integrating a primary heater with a secondary heat exchanger, the first to be employed in a wall heater. This Court held that

“From the entire record it appears that a ‘heat exchanger’ or ‘economizer’ of this peculiar construction or arrangement has never been embodied in any type of mechanical wall heater apparatus prior to its application and use in the Holly (Hollingsworth) device (233 F. 2d 71, 79), and Mr. Giwosky candidly admitted that the Holly or Hollingsworth wall heater was the first on the market with a secondary heat exchanger or economizer.” (233 F. 2d 71, 84.)

It was the Hollingsworth heater with its integrated economizer that solved the serious problems that confronted wall-heater manufacturers. The District Court found, and this Court of Appeals reiterated, that Hollingsworth’s invention permitted

“the thermal input of wall heaters to be increased without bringing about excessive wall temperatures at any point in the wall from floor to ceiling, and

without reducing thermal efficiency of the wall heaters; and that the invention of the patent in suit has simultaneously solved the hot wall problem from floor to ceiling, increased thermal efficiency while permitting increased heat input, improved air circulation within the room, minimized heat loss due to warm air being sucked out of the room through the draft hood, and has rendered this heat loss substantially independent of flue height." (233 F. 2d 71, 81.)

It is *res judicata* that the Hollingsworth patent represents a great step forward in the wall heater art and that Hollingsworth was the first to teach the use of integrated economizers in gas-burning wall heaters.

**The Browell Patent Anticipates the Claimed Novelty in
Giwosky.**

In the prior litigation, Coleman "introduced in evidence fourteen prior patents to exemplify prior art in house-heating devices or appliances." However, on the appeal before this Court, it saw fit to discuss, compare and principally rely on only three prior patents in the household-heating field of art. One of these was the Browell patent granted in 1882. This patent does not relate to gas-fired wall heaters, and of itself does not solve the problems which plagued wall heaters prior to Hollingsworth. But, as Coleman admits (Op. Br. p. 9) it does disclose the use of an economizer with a fireplace.

At the trial of the original action, Coleman's expert Jack Kice went to great pains to show that Coleman's economizer was constructed exactly in accordance with the Browell patent. Mr. Kice testified that in the Browell device "air enters the economizer in openings directly above the lower box, absorbed heat from the flue within the economizer and was then discharged into the room

through an outlet at the top of the economizer.” [R. 144.] He went on to say that “the Coleman design . . . is quite similar to the old Browell patent of 1882 . . .” [R. 147.]

And at the trial, Coleman’s then counsel, Mr. Lyon, argued that the Coleman heater operated entirely in accordance with the Browell patent. Thus Mr. Lyon asserted: “It is entirely the principle of that 1882 patent and not the McLeod or the patent in suit (Hollingsworth). [R. 160.]

The extreme relevance of Browell to the Giwosky patent is thus admitted by Coleman. And even in the absence of these admissions the relevance would be plain from a comparison of the Giwosky patent drawings with those of Browell. In the Giwosky patent, all the air to cool the economizer enters the economizer from the room through grills 20 to 21 in the bottom of the economizer, passes upwardly in heat exchange relationship with the flue 17 inside the economizer and is discharged at the top of the economizer through the grille 24. [R. 314.] In the Browell heater all of the cooling air enters the economizer through the holes in the bottom of the economizer, passes upwardly in heat exchange relationship with the flue E inside the economizer and is discharged at the top of the economizer through the outlet I. [R. 323-324.]

There is no disagreement as to what Hollingsworth or Giwosky or Browell disclose and, as we show later, no disagreement as to what Giwosky claims in his Claim 2. The only question on this appeal is whether or not what Giwosky claims in his Claim 2 amounts to invention over what Hollingsworth and Browell disclose. On the undisputed facts the trial court could only conclude that it did not.

ARGUMENT.

I.

The Trial Court's Findings of Fact in the Instant Case Are Proper and Serve the Important Function of Advising This Court of the Basis of the Trial Court's Judgment.

This Court in its recent decision in *Trowler v. Phillips* observed that:

“It is interesting to note that findings of fact and conclusions of law were prepared and signed. The theory of a summary judgment is that there are no disputed facts. We have seen findings of fact accompanying summary judgments, Rule 52(a) of the Federal Rules of Civil Procedure, 28 U. S. C. A., which, while unnecessary, did provide a handy summary. But all too often a set of unnecessary findings of fact is the telltale flag that points the way to a discovery that summary judgment should not have been granted.” (260 F. 2d (Adv.) 924, 926.)

In the case at bar, it is stipulated that the entire record in the earlier litigation between the same parties is part of the record in the present case. The record for the prior litigation comprises eight printed volumes. The findings provide “a handy summary” of the facts which the court had before it. In the *Trowler* case the only things that were before the trial court were copyrighted maps, the alleged infringing maps, and an affidavit containing a partial description of how the copyrighted maps had been prepared from certain source material. This source material was not in evidence and accordingly the trial court had no way of determining just how much originality the plaintiff copyright owner had exercised in preparing his maps.

In the instant case there is no genuine issue as to “how much originality” was exercised by the patentee, Giwosky. The contents of the patent in suit, its file wrapper history and the two prior patents relied upon as anticipations are not in dispute. All such issues had long since been resolved by the decision of the District Court and this Court of Appeals in the prior litigation or by Coleman’s admissions in the prior litigation. No additional evidence is necessary to determine what Giwosky’s alleged improvement was or what the prior art patents to Hollingsworth and Browell disclosed. Indeed, any additional evidence would be barred as contradictory of Coleman’s admissions or as contradictory of facts that have already been judicially determined in the prior litigation.

True, findings of fact were made in the instant case. But, as this Court has observed in a footnote in *Trowler v. Phillips*, 260 F. 2d (Adv.) 924, 926, such findings are required on a motion for summary judgment by the Rules of the District Court for the Southern District of California, and a brief review of these findings shows that they are based upon uncontroverted facts as to the patent in suit, its file wrapper history, the prior art patents of Browell and Hollingsworth, the Court’s prior decisions, and Coleman’s admissions.

A brief discussion of the findings on invalidity is pertinent. They provide “a handy summary.”

“7. There is no genuine issue as to any material fact necessary to the consideration and determination of said motion for summary judgment.”

The seventh finding [R. 131] simply states that there is no genuine issue as to any material fact necessary to the consideration and determination of the motion for summary judgment. As we have shown, this finding

is clearly supported by Coleman's admissions and the Court's decisions in the prior litigation. Thus, during the prior litigation, Coleman's patent solicitor unequivocally defined the "important novel . . . feature" of the Giwosky patent. [R. 163.] During the prior litigation the District Court and this Court of Appeals defined with precision the prior teachings of Hollingsworth and Browell. (233 F. 2d 71, 73, 74, 77.) And during the prior litigation, Coleman's witness and counsel admitted that the "important novel . . . feature" of the Giwosky patent is precisely what Browell disclosed. [R. 144, 160.] There were no genuine issues as to the prior art or what Giwosky did to improve upon it. All that remained was a question of law—namely, whether or not what Giwosky did as compared with what the prior art taught amounts to invention. The seventh finding is clearly proper and necessary.

"10. Defendant has admitted that claim 1 of said Giwosky Patent No. 2,767,702 does not cover plaintiff's wall heater models 25NS, 25ND, 35NS, 35ND, 50ND, 57ND, 250S, 250D, 350S, 350D, 500D, 570D, 25S, 25D, 35S, 35D, 50D, and 55D, and the parties hereto have agreed that claim 1 of said Giwosky patent No. 2,767,702 is not in issue in this action."

Finding No. 10 merely sets out the material and undisputed fact that Coleman has admitted that Siegler does not infringe claim 1 of the patent in suit and is, of course, necessary and not a subject of dispute.

"11. It is admitted by the parties hereto that United States Letters Patent No. 268,860 issued to Browell in 1882 is pertinent prior art which concededly was not cited and presumably not considered by the Patent Office in passing on the application for the patent in

suit No. 2,767,702 issued to Giwosky, and further, the parties stipulated that the entire record of Holly Manufacturing Company v. The Coleman Company, Civil No. 15,886-WM in this Court, is now before this Court for consideration upon plaintiff's motion for summary judgment."

Finding No. 11 sets forth the fact that the Browell patent represents admittedly pertinent prior art that was not cited and presumably not considered by the Patent Office and that the parties stipulated that the entire record of the prior litigation was before the District Court. In the prior litigation, as we have shown, Coleman not only repeatedly admitted but stressed the pertinence of the Browell patent. [R. 145-147, 160.] The file wrapper history of the Giwosky patent shows without doubt that the Browell patent was not cited by the Patent Office. In view of its extreme pertinence, it is proper to presume that the Browell patent was not considered by the Patent Office. Lastly, the parties *did* stipulate that the entire record of the prior litigation was before the District Court. [R. 312.] The facts of Finding No. 11 involve no genuine issues and are necessary.

"12. The patent to Browell No. 268,860 discloses that it is old in the art to employ a metal flue construction on a primary heating appliance wherein air is taken into a casing about the flue at a location immediately above the primary heating appliance and discharge below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located. Claim 2 of the Giwosky patent No. 2,767,702 describes a metal flue construction 17 on a primary heating appliance 10 wherein air is taken into a casing 22 about the flue at a location 20 immediately above the primary heating appliance and discharge below a barrier 26 in the casing at a

location near the ceiling of the room in which the heating appliance is located, and hence claim 2 of said Giwosky patent No. 2,767,702 does not differ patentably from the device shown in the Browell patent No. 268,860.”

Finding No. 12 sets out what Browell discloses and compares this with the “important novel feature” of Giwosky’s claim 2. Coleman agrees (Op. Br. p. 24) that “the fact statements in the above finding are substantially correct”, but quarrels with the question of law that “Claim 2 of the Giwosky patent does not differ patentably from the device shown in the Browell patent No. 268,860”.

13. The patent to Hollingsworth, et al., No. 2,602,441, discloses that it is old in the art to employ in a wall heater having a primary heating element with a secondary heat exchanger to heat a stream of air in addition to that heated by the primary heating element, and the patent to Browell No. 268,860 discloses that it is old in the art to provide a secondary heat exchanger employing a metal flue construction on a primary heating appliance wherein air is taken into a casing about the flue at a location immediately above the primary heating appliance and discharged below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located. Claim 2 of the Giwosky patent No. 2,767,702 describes a wall heater employing a primary heating appliance and having a flue construction which serves as a secondary heat exchanger wherein air is taken into a casing about the flue at a location immediately above the primary heating appliance and discharged below a barrier in the casing at a location near the ceiling of the room in which the heating appliance is located, and hence claim 2 of said Giwosky patent No. 2,767,702 does not differ patentably from the

combination of the devices shown in Hollingsworth patent No. 2,602,441 and Browell patent No. 268,860.”

Finding 13 again sets forth the prior teachings of Browell, and the admitted “important feature” of Giwosky’s claim 2, and in addition sets forth prior art teachings of Hollingsworth, all of which are supported by the decision of the District Court and this Court of Appeals in the prior litigation.

“14. The device described in claim 2 of said Giwosky patent No. 2,767,702 is anticipated by United States Patent No. 268,860 issued to Browell in 1882 and it is also anticipated by the device disclosed in Hollingsworth patent No. 2,602,441 issued to Holly Manufacturing Company on July 8, 1952.

“15. The device described in claim 2 of said Giwosky patent No. 2,767,702 fails to meet the standard of invention required by the laws of the United States because the invention claimed therein lacks patentable novelty over the prior art patents.

“16. The device described in claim 2 of said Giwosky patent No. 2,767,702 fails to meet the standard of invention required by the laws of the United States because the subject matter of said claim 2 would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art.”

Findings 14, 15 and 16 are based on the preceding findings of fact that claim 2 of the Giwosky patent is anticipated by the prior disclosures of Hollingsworth and Browell, and that the claim fails to meet the standard of invention required by law because “the invention claimed therein lacks patentable novelty over the prior

art patents” and “would have been obvious at the time the alleged invention was made to a person having ordinary skill in the art.”

“17. Extrinsic evidence is not needed to explain or evaluate the prior art, cited or uncited, and its applicability to the subject matter of claim 2 of the patent in suit.”

Finding 17 is to the effect that extrinsic evidence is not needed to explain or evaluate the prior art, cited or uncited, and its applicability to Giwosky’s claim 2. This is a proper finding, for, as we have shown, the art is not a complicated one requiring expert evidence to explain it, and even if it were, the facts judicially determined in the prior proceedings and Coleman’s admissions satisfy the requirement.

“18. In claim 2 of the Giwosky patent in suit, the various elements set forth as constituting the patented device do not produce any result not produced in the prior art, or any unexpected result, and do not produce in aggregation any result greater than the sum of their separate results, or any result different from the result which in aggregation is produced in the prior art.

“19. The elements of claim 2 of the Giwosky patent in suit, being an alleged combination invention composed of elements old in the art, do not perform any additional and different function in combination than they perform out of it and, as such, said claim 2 fails to meet the standard of invention required by the laws of the United States.”

Findings 18 and 19 are to the effect that the various elements set forth in Giwosky’s claim 2 do not produce any result not produced in the prior art, or any result

that is unexpected or any different from the result that in aggregation is produced in the prior art, and that the elements of Claim 2 do not perform any additional or different function in combination than they perform out of it. These conclusions, be they of fact or of law, are clearly supported by the record in the prior litigation. The device of Claim 2 was never made or sold by Coleman, as we have shown. It merely represents a design that Coleman falsely represented that it would change to in order to avoid the Hollingsworth patent. [R. 153-157, 164, 165.] This is *res judicata* in the other case. (233 F. 2d 71, 82.) It is at most merely an impractical design that Coleman promised to follow but never did. Thus, it may be said with complete veracity that the device of Coleman's Claim 2 never produced *any* results at all and that its combination of elements never performed *any* function.

In summary, all of the foregoing findings find support in the uncontroverted contents of the patent in suit, its file wrapper, in the prior art patents, in the decisions in the prior litigation, and in Coleman's admissions. They explain the Court's conclusion, and in any event are unsailable.

It should be emphasized that any one of the Findings 12, 13, 14, 15, 16, 18 or 19, taken alone, will support the judgment of invalidity of the patent in suit. Coleman therefore has the burden of *showing* that an issue of material fact exists as to each such finding in order to warrant reversal. It cannot do so.

II.

Any Issue in This Case Is Purely an Issue of Law.

This Court has recently discussed at length the question of whether the validity of a patent claim is an issue of fact or of law. (*Bergman v. Aluminum Lock Shingle Corp.*, 251 F. 2d 801, 803 (9th Cir., 1957).) In that case Judge Lemmon wrote:

“In *Atlantic and Pacific*, . . . 340 U. S. at page 155, . . . in the concurring opinion of Mr. Justice Douglas, we find the following correct statement of the law:

“‘The standard of patentability is a constitutional standard; and the question of validity of a patent is a question of law’”

Judge Pope, in a concurring opinion, went into the matter in somewhat greater detail and wrote:

“ . . . but cases decided since *A & P Tea Co.* are not inconsistent with what I think is well stated in *Daller’s Walker on Patents*, 1957 Supp. at p. 115 of the original text as follows:

“‘The conflict between the statement that the question of invention is one of fact and the almost innumerable instances in which the courts have dealt with it as though it were one of law, can only be explained by breaking down the question of invention into its component parts: what the prior art was and what the patentee did to improve upon it, and then, whether what the patentee did is properly to be classified as an invention. The nature of the prior art and the nature of what the patentee did to improve upon it must always be questions of fact. The question of the name to be given to what was done by the patentee, whether it is to be called an invention over

the prior art or whether it is not, is a question fundamentally of the meaning of the words used in the statute [35 U. S. C. Sec. 31], and as such would seem to be a question of law.’ ”

In this case the nature of the prior art and what the patentee did to improve upon it, which are questions of fact, are not genuine issues for dispute. The art of wall heaters is not a highly technical one, like chemistry or electronics, and the two prior art patents, Hollingsworth and Browell, would, if necessary, speak for themselves. But they need not do so, because the District Court and this Court of Appeals have already considered both patents at length in the prior litigation and have already decided what they disclose. The Giwosky patent in suit and its Claim 2 also speak for themselves, and if this is not enough, Coleman’s counsel Mr. Dawson, has explained them in his testimony in the accounting proceedings. [R. 163-165.] No issue of material fact exists.

III.

No Evidence Is Needed to Clarify the Meaning of the Giwosky Patent.

Claim 2 the only claim of Giwosky involved in the case at bar, has heretofore been quoted in full. The claim is admittedly verbose, but the subject matter is not complex, particularly to a trial judge who has acquired wide knowledge in the wall heater art in the prior litigation between the parties.

In its main brief (pp. 10, 26-28) Coleman protests that there is a conflict as to the meaning of Claim 2 and that the District Court erred in considering the validity of this claim before it had resolved the conflict. In support of this contention, Coleman refers to the two Giwosky affi-

davits and to another affidavit executed by Coleman's vice-president Newton. Actually, however, there is no conflict. Mr. Giwosky's affidavits are not concerned with the meaning of Claim 2, which is abundantly clear, especially when it is considered in the light of the Giwosky specification, as it must be. (*Walker on Patents* Dellers' Ed. 1937, p. 1242.) On the contrary, Mr. Giwosky's affidavits are related to other matters that are not in issue on this appeal. In its complaint for declaratory relief, Siegler alleged that Mr. Giwosky is not the inventor of the subject matter claimed in his patent [R. 4] and that Claim 2 of his patent is invalid because this claim was broadened during prosecution in the Patent Office to embrace something not described in the original application for the patent and not set out in the statement of invention or the claims as originally filed. [R. 5.] Mr. Giwosky executed a first affidavit in which he admits that one feature of Claim 2 is of no consequence and not part of his invention. Thus Mr. Giwosky swore that:

“Both Claims 1 and 2 of United States Patent No. 2,767,702 require that room air introduced into the second stage of heat exchange be brought into heat exchange relationship with the barrier plate at the bottom of the economizer. As I have already stated, this heat exchange relationship is of no consequence. I never considered that the bringing about of such relationship was a part of my invention to which my application was directed and never intended to claim it as a part of my invention.” [R. 43-44.]

Coleman's Newton agreed that bringing room air into heat exchange relationship with the barrier plate at the bottom of the Giwosky economizer, as required by Claim 2, is of no consequence. In his affidavit [R. 83] Newton swore that “There was no need, as indicated by Mr. Giwosky, to cool the closure plate, as such.”

Siegler, in its motion for summary judgment, also asserted that Mr. Giwosky did not invent the subject matter of Claim 2 of the patent and argued Coleman had misled the patent office by stressing the importance of cooling the lower box top to obtain a patent over the reference Hollingsworth. [R. 46, 65.]

The record shows that Coleman, without consulting Mr. Giwosky, amended his application by adding Claim 2 directed to a device Mr. Giwosky did not think would work. [R. 43.] In obtaining allowance of the claim, Coleman laid emphasis on the use of room air to cool the top of the lower box or barrier plate, and pointed up the possible dangerous overheating in Hollingsworth, which showed only a "dead air space" in the area (file wrapper, amendments dated May 29 and July 11, 1956). Both assertions were false.

Giwosky regarded cooling the barrier plate to be of no consequence, and, as Coleman's Kice had testified, Hollingsworth did not have a "dead air space" in the area above the lower box. [Orig. R. 359.]

On the basis of the foregoing facts, Siegler included misleading the Patent Office in its argument for summary judgment [R. 65], relying in part upon the rule reiterated in *Armour and Company v. Wilson*,* 119 U. S. P. Q. 365, 370 (N. D. Ill., 1958) (Federal Reporter citation not yet available):

"The . . . patent was secured after furnishing the Patent Office with false and misleading evidence and statements, and this invalidates the . . . patent."

*By mere coincidence, the owner of the patent stricken down in the *Armour* case was represented by Coleman's patent counsel who are of record in the case at bar and who handled the Giwosky patent application in the Patent Office.

However, in the instant case, the Court did not base its decision upon the foregoing grounds. The purported fact issue raised by the Giwosky and Newton affidavits thus had nothing to do with the meaning of Claim 2 and was not involved in the Court's decision.

As to the meaning of Claim 2, Mr. Dawson, the attorney for Coleman who prosecuted the Giwosky patent application in the Patent Office, testified in the accounting proceedings in the prior litigation and stripped the claim of all the useless verbiage that it contains. In testifying about the Giwosky patent, he admitted that:

“And there the important feature was that instead of bringing the air in (to the economizer) from the bottom of the casing around the lower heater (as in Hollingsworth and Coleman's production heaters) that the air was admitted freely through a vent in the very front of the economizer, so that the room air could be utilized in cooling the top of your heater” [R. 163].

Mr. Dawson's admission disposes of any argument as to what Mr. Giwosky allegedly invented. In view of Hollingsworth, Mr. Giwosky's alleged invention is simply the bringing of room air directly into the base of the economizer through vents or grills located at that point *instead* of bringing it in upwardly through the space in the wall around the lower box of the heater.

The case is therefore not comparable to *Cee-Bee v. Delco Products*, 120 U. S. P. Q. 72 (9th Cir., 1958) (Federal Reporter citation not yet available), in which the meaning of the claim and the prior art could not be resolved without resolving an issue of fact.

As the Court in that case stated, however:

“What the prior art was and what the patentee did to improve upon it are questions of fact. Whether what the patentee did is properly to be classified as invention is a question of law . . . If there were here no genuine issues as to the material fact concerning prior art and the teaching of the . . . patent [in suit], the trial court’s conclusion that . . . [the patent] lacked invention would involve only a question of law which could be decided by summary judgment.”

In the instant case there is no issue as to what either the prior art or Giwosky taught. That the patent in suit lacked invention was therefore properly decided on a motion for summary judgment.

IV.

Giwosky’s Immaterial Variation Over Hollingsworth Is Not Patentable.

Both this Court and the District Court have considered the inconsequential differences between the Coleman design and the wall heaters described and claimed in the Holly patent, to Hollingsworth, No. 2,602,441, previously before this Court in the case of *Holly v. Coleman*, 233 F. 2d 71. In this connection it should be added that this Court found that Coleman’s production model wall heaters designed by Giwosky copied the Hollingsworth, *et al.* design with “immaterial variances.” (233 F. 2d 71, 84.)

The design covered by Giwosky’s patent differs from Coleman’s production model wall heaters designed by Mr. Giwosky since the economizers in the production models utilize air from around the lower box as well as air entering directly from the room, while the design in the patent provides a structure in which air entering the

bottom of the economizer “is entirely separate from the air heated by the wall heater”. [R. 315.]

Mr. Horace Dawson, who prosecuted the Giwosky application in the patent office, stated that Giwosky’s “important novel . . . feature was that instead of bringing the air in from the bottom of the casing around the lower heater that the air was admitted freely through a vent in the very front of the economizer” [R. 163] and that “It seemed to me that the structure shown in the Giwosky patent in effect closed off all the air” from around the lower box. [R. 164.]

The file wrapper of the Giwosky patent, particularly the amendment dated July 11, 1956, also provides Coleman’s reasons for its assertion that the Giwosky device is novel over Hollingsworth, *et al.*, No. 2,602,441. There, the suggested difference between Hollingsworth and Claim 2 of Giwosky is the use of room air flowing over the lower box top into the second stage of heating in Giwosky—the air that is warmed by circulation through the second box or economizer. Giwosky merely substituted an air source for the economizer through inlet grilles at the top of the lower-box panel.

In an earlier attempt to distinguish the Giwosky device over the Hollingsworth *et al.* patent, and in an endeavor to overcome the Final Rejection by the Patent Office dated December 21, 1955, counsel for Coleman also relied upon this feature as constituting the distinction of the Giwosky device over the Hollingsworth *et al.* patent. In Coleman’s amendment dated May 29, 1956, Coleman states with reference to the area just above the top of the lower box that Hollingsworth *et al.* “shows only dead air space in this area,” and in its amendment dated July 11, 1956, that “heating above the code limitation would be quite likely

to occur with the Hollingsworth construction, while the problem is overcome with applicant's [Giwosky's] construction."

However, the area in question in the Hollingsworth *et al.* device is in direct communication with and forms a part of the air passageway [designated No. 41 in the Hollingsworth *et al.* patent—R. 317] around the secondary heat exchanger which, in turn, receives air from the space [designated No. 24 in Figs. 3 and 4 of the Hollingsworth *et al.* patent—R. 317] about the sides and the back of the lower box or primary heater. Hence the Hollingsworth *et al.* patent does not show only dead air space in this area as represented by Coleman in its endeavor to find a patentable distinction between the Giwosky design and the Hollingsworth *et al.* design.

Coleman's expert, Mr. Kice, testified that the Hollingsworth *et al.* heater took room air "up through the columns of the trim * * * into the space above the lower box * * * into the secondary heat exchanger". [R. 152.]

As a matter of uncontroverted fact, therefore, Hollingsworth, *et al.* employs an arrangement which is the equivalent of the element Coleman urged to obtain a patent over Hollingsworth *et al.*

"It is elemental that the mere substitution of equivalents which do substantially the same thing in the same way, . . . is not such an invention as will sustain a patent." (*Dow Chemical Co. v. Halliburton Co.*, 324 U. S. 320, 330 (1945).)

V.

Claim 2 of the Giwosky Patent Is Invalid in the Light of the Prior Patents to Hollingsworth and Browell.

According to Coleman, the “important novel . . . feature” of the Giwosky patent is the bringing of room air into an economizer of a gas-burning wall heater through a vent or grille located at the base of the economizer *instead* of including a conduit for air through the space in the wall around the lower box of the heater, as taught by Hollingsworth and followed by Coleman in its production model heaters. The District Court, with the teachings of Hollingsworth and Browell thoroughly interpreted for it in the prior litigation and by this Court of Appeals’ prior decision, held that this did not amount to invention. The District Court was correct.

As this Court of Appeals has pointed out in its decision in the prior case (233 F. 2d 84), Mr. Giwosky himself admitted that the Holly gas-burning wall heater, built in accordance with the Hollingsworth patent, was the first on the market to employ an economizer or secondary heat exchanger, and that he had one of the Holly heaters before him when he began the design work on Coleman’s heaters. There can be no question that the successful Hollingsworth invention is much earlier in time than the purported invention of Mr. Giwosky.

The Giwosky patent is, in any view of the facts, a Johnny-come-lately in the art of gas-burning wall heaters. The application for it was not filed until October 1, 1953, more than a year after the Hollingsworth patent had

been issued, and long after Mr. Giwosky had had an opportunity not only to familiarize himself with the patent but with the Holly heater built in accordance therewith, and even after Holly had brought suit for infringement. Claim 2 of the Giwosky patent was not introduced into the application until July, 1956, several months after this Court had rendered its decision in the case of *Coleman v. Holly Mfg. Co.*, No. 14,711, affirming the trial court's ruling that Coleman had deliberately infringed the Holly patent. So Giwosky was far from being a pioneer in the wall-heater art. His superiors at Coleman told him to design a heater like the Holly, and following instructions, he was forced to be little more than a mere copyist. [R. 171-174.]

This Court, in referring to the Coleman heaters involved in the prior litigation, held "that all of the essential parts and elements of appellee's device have been, with immaterial variances, faithfully copied by appellant in constructing its various models . . ." (233 F. 2d 71, 84). A similar statement can readily be applied to Giwosky's alleged invention. This "invention" as defined in Claim 2 is a faithful copy of the Hollingsworth device with a single immaterial variation. This single immaterial variation is the bringing of room air into the economizer directly through vents in its base *instead* of upward through the space in the wall around the lower box. This variation is disclosed by Browell. As we pointed out repeatedly in our briefs in the prior litigation, the Browell patent, relating as it does to the much earlier fireplace art, did not in and of itself, solve the problems that confronted Hollingsworth in wall heaters. But the Browell patent does disclose the use of an economizer (as Coleman has admitted in its Op. Br. p. 9), and after Hollingsworth has showed how to use economizers in gas-burning wall

heaters, the Browell patent took on a relevance that it had not had before.

In Coleman's opening brief before this Court filed July 30, 1955 in the prior litigation, No. 14711, concerning infringement of the Hollingsworth patent, pages 40-41, *Coleman submitted that its device was "constructed directly in accordance with this Browell patent,"* and pointed out the similarities between the Browell economizer and that of Coleman. This argument did not relieve Coleman of the charge of infringement because, as this Court determined, the Coleman economizers drew air from *two* sources—directly from the room through grilles in the base of the economizer and *also* through the space in the wall around the lower box, as required by the Hollingsworth patent. But the argument is relevant in this later action because the device of the Giwosky patent, unlike the infringing heaters that Coleman made and sold, has an economizer that draws air from only *one* source—namely, through grilles or vents in the base of the economizer. This is *exactly* what Browell taught.

Coleman's Mr. Kice made this very plain at the trial in the earlier action between the parties. Mr. Kice interpreted the Browell disclosure by means of a drawing that he had made. This drawing was an overlay to Defendant's Exhibit AA in the prior litigation. Exhibit AA with the overlay is attached to this brief as Appendix A. Mr. Kice testified that this exhibit represented "the practical application of the Browell patent" and showed that in the Browell structure "air enters the economizers at Points A, in openings directly above the lower box, and would absorb heat from the flue and would exhaust back into the room through an outlet, which I will mark B" [R. 144]. A comparison of Exhibit AA and its overlay with Fig. 2 of the Giwosky patent [R. 314] shows that

the economizer of the two drawings are substantially identical. In both, the economizers receive all their air from vents at their bases and discharge this air through grilles at their tops just below the ceiling. As Mr. Kice intimated [R. 147], the "Coleman design [as represented by the Giwosky patent] . . . is quite similar to the old Browell patent of 1882." And Mr. Lyon, Coleman's then counsel, emphasized this fact when he asserted that the Coleman heater ". . . is entirely the principle of that 1882 patent. . . ." [R. 160.]

In summary, the record and decisions in the prior litigation establish beyond any possibility or argument that the device of Giwosky Claim 2 is identical with the prior device of the Hollingsworth patent save for an immaterial variation. This immaterial variation is disclosed by Browell. The District Court did not have to resolve any issues as to what Hollingsworth and Browell disclosed or what Giwosky did to "improve" upon these disclosures. The sole question before the District Court was whether or not Giwosky's "improvement" amounted to invention. This was purely a question of law which it correctly resolved. (*Bergman v. Aluminum Lock Shingle Corp.*, 251 F. 2d 801 (9th Cir., 1957).) *The District Court correctly found that Giwosky's contribution to the art was infinitesimal at best and does not amount to invention.*

The District Court based its decision upon readily understandable prior art, judicially determined facts, and Coleman's admissions. Summary judgment declaring the patent in suit invalid is therefore proper. (F. R. C. P., Rule 56; *Vermont Slate Co. v. Tatko Bros.*, 233 F. 2d 9 (2nd Cir., 1956).)

VI.

The Giwosky Device Required No More Than
Ordinary Skill in the Art.

Admittedly, Hollingsworth *et al.* were the first to invent an integrated wall heater with a secondary heat exchanger. No inventive genius was necessary to adapt Browell's flue construction to the economizer or secondary heat exchanger once Hollingsworth had shown how to employ an economizer or secondary heat exchanger in a wall heater. The reference Browell shows a metal flue construction in which air is taken into a casing about the flue at points p directly above the primary heating appliance and discharged at an intermediate point I below a barrier. [R. 144.] The secondary heat exchanger of the Giwosky patent is the same thing. Air is taken into the casing about the flue at a point 20 directly above the primary heating appliance and discharged at an intermediate point 24 below a barrier. [R. 164, 165, 314.]

Section 103 of Title 35, United States Code provides:

"A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."

In the ordinary case, Giwosky would be *presumed* to have knowledge of the references Hollingsworth and Browell. As the Supreme Court has made plain:

". . . whatever the facts may have been, he is chargeable with a knowledge of all pre-existing devices." (*Mast, Foos & Co. v. Stover Co.*, 117 U. S. 485, 493 (1900).)

Resort to presumptions of knowledge need not be made in the case at bar. Giwosky admitted having the Holly heater before him when he designed his device. He further admitted that the Holly heater was the only one on the market having a secondary heat exchanger or economizer when he designed Coleman's infringing heaters. (233 F. 2d 71, 84.) His instructions were to design a heater like the Holly. [R. 171-174.]

This Court and the trial court therefore held that Coleman copied Holly with "immaterial variations." As has been pointed out, the Giwosky patented heater differs from Coleman's production heaters since in the patent, *all* air entering the economizer enters from the room at a level above the top of the lower box. [R. 315.] Such a variation is shown by Browell. Adapting Browell to Hollingsworth requires no more than ordinary skill. Here again the reference Browell was known at Coleman during the prosecution of Giwosky's application for a patent.

Coleman's Kice in 1955 testified with respect to the Browell construction:

"Air enters the economizer at points A, in openings directly above the lower box, and would absorb heat from the flue and would exhaust back into the room through an outlet which I will mark B." [R. 144; Appendix A to this brief.]

Mr. Kice found in Browell the principle of introducing *all* air into the economizer from a level just above the lower box—the same principle which Mr. Dawson stated was the "important novel feature" of Giwosky. [R. 163.]

Certainly after Hollingsworth had shown *inter alia* how to prevent excessive wall temperatures, increase circulation and efficiency, and hold efficiency constant regardless of flue height by constructing a wall heater with an inte-

grated economizer, it required no more than ordinary skill by one who knew about Browell to adapt Browell to the Hollingsworth construction.

In prosecuting the Giwosky application, Coleman's patent attorney, Mr. Dawson, after final rejection of the application stressed that Giwosky brought air over the top of the lower box in "heat exchange relationship" as heretofore pointed out. Kice's description of Browell, that is, bringing air into the economizer "directly above the lower box" would accomplish the same thing, since Coleman's vice president Mr. Newton has stated:

"Whenever a stream of cool air contacts a hot metal plate it is necessarily and inevitably in 'heat exchange' relation with the plate." [R. 83.]

As the Supreme Court put it:

"The patented device results from mere aggregation of two old devices, and not from invention or discovery. . . . On the record before us, it is impossible to hold that production of the patented device required more than mechanical skill and originality attributable to those familiar with the art. . . ." (*Toledo Pressed Steel Co. v. Standard Parts, Inc.*, 307 U. S. 350, 356 (1939).)

VII.

The Device of the Giwosky Patent Does Not Meet the Test of the A & P Case.

In the landmark *A & P* case, 340 U. S. 147 (1950), the Supreme Court held with respect to mechanical devices such as in the patent at bar:

"The conjunction or concert of known elements must contribute something; only when the whole in some way exceeds the sum of its parts is the accumulation of old devices patentable."

In the instant case, the trial court found that the Giwosky device was a mere aggregation which produced no new and unusual results. [R. 135.]

The District Court thus found that the device of Giwosky's Claim 2 involves no new cooperative relationship and was productive of no new or surprising results, but it did not do so "by merely looking at a drawing of [Giwosky's] patented combination," as Coleman has argued in its opening brief, page 11. On the contrary, the District Court had before it the knowledge that Coleman had never made and sold any heaters containing the alleged "important novel feature" of the Giwosky patent (*i.e.*, the use of room air introduced directly into the base of the economizer instead of bringing this air up from the space inside the lower box), but on the contrary, had "faithfully copied" the Hollingsworth device with "immaterial variances," as judicially determined by this Court. (*Coleman v. Holly*, 233 F. 2d 71, 84.) The District Court also had before it Coleman's assertions in the prior trial that the Giwosky economizer operates "entirely on the principle" of the Browell patent, and this Court's careful description of what the Hollingsworth and Browell patents disclose.

The District Court further had observed tests of Coleman's and Holly's heaters. The District Court also had before it the testimony of Coleman's expert Berry who testified that a Coleman heater he had modified in accordance with Giwosky would not pass A.G.A. (American Gas Association) requirements because of excessive wall temperatures. [R. 230, 235.] The District Court also had before it the indisputable commercial success of the Hollingsworth heater and the fact that the Hollingsworth heater has had A.G.A. approval from the beginning. [233 F. 2d 71, 80; R. 159.] The District Court also had before it the

statement of the inventor Giwosky that he did not consider the two-stage wall heater of Claim 2 to be operative. [R. 41.] The District Court could therefore rightly have concluded that the device of Claim 2 represented a step backward in the art. Certainly its findings that the device of Claim 2 does not meet the test of the *A & P* case is well-founded in judicially determined facts and the statements of Coleman's representatives.

In doing so, the trial court was merely following the mandate "against dignifying combined 'segments of prior art' with the title of 'invention'." (340 U. S. 147, 153.) This mandate of "canon" has been expressly recognized by this Court of Appeals in *Bergman v. Aluminum Lock Shingle Corp.*, 251 F. 2d 801 (9th Cir., 1957), and has been more recently reenforced in *Alvarado Sales Co. v. Rubalof*, 120 U. S. P. Q. 355 (9th Cir., 1959) (Federal Reporter citation not yet available).

The District Court did not err.

VIII.

The Presumption of Validity of Giwosky Is Destroyed.

A. The Browell Patent, Not Cited by the Patent Office During Its Consideration of the Giwosky Application, Is More Pertinent Than Any of the References the Patent Office Did Cite, With the Exception of Hollingsworth.

In its opening brief (p. 7), Coleman argues that "the prior art evidence before the trial court was the same in all material respects as that which had been considered by the Patent Office prior to the granting of the [Giwosky] patent. This constitutes a clear disregard of the presumption of validity." Later on in its opening brief (pp. 18-19), Coleman argues that "the Browell

patent is less pertinent than the Hollingsworth patent, which was cited by the Patent Office, and is at most merely cumulative of other patents cited by the Patent Office.”

Admittedly, the Browell patent is less pertinent than the Hollingsworth patent, which (as we have demonstrated) relates to gas-fired wall heaters and represents the first successful use of economizers in such devices. As this Court remarked in its prior decision:

“The three fireplace patents above discussed [including the Browell patent] and heavily relied upon by appellant represent earlier concepts of heat conveyance through the use of such fireplaces, but in devising their apparatus the Holly patentees [Hollingsworth et al.] clearly appear to have parted company with the basic design portrayed by these concepts to create something new in overall construction and functional operation—a compact unitary wall device which could easily be adapted to the modern pattern and mode of living under conditions of urban life (or when gas would be available) and where an effective and reliable single room gas-burning heater device would be highly desirable and certainly very useful.” (233 F. 2d 71, 84.)

But, as we have already shown, the only substantial difference between the Hollingsworth device and that of Giwosky resides in the fact that Giwosky draws the air for his economizer directly from the room through openings at the base of his economizer, instead of drawing this air upward through the space inside the wall around the lower box. The testimony of Mr. Dawson, who

solicited the Giwosky patent, is unequivocal on this point. Speaking of the Giwosky patent, Mr. Dawson said:

“ . . . And there the important feature was that *instead** of bringing the air in from the bottom of the casing around the lower box that the air was admitted freely through a vent in the very front of the economizer, so that the room air could be utilized in cooling the top of your heater.” [R. 163.]

This “important feature,” as we have already demonstrated, is clearly disclosed by Browell. It is *not* disclosed in the references cited by the Patent Office. These are the patents of Cayot, Snyder, Derrough, and Bacon, *et al.*

The Cayot Patent [R. 327] discloses a single stage wall heater *without any economizer at all*. Clearly it cannot teach what Browell taught.

The Snyder Patent [R. 336] discloses a fireplace provided with a secondary heat exchanger or economizer, but the economizer receives its air *from outside the house* through a port 15 and an upwardly rising duct 17 behind the fireplace itself. Snyder’s economizer receives no room air at all and certainly not any room air from a vent in the base of the economizer, as disclosed by Browell and claimed by Giwosky.

The Derrough Patent [R. 341] relates to brick chimney construction in a multi-storied building. In the chimney 1 there is a smoke flue 2 with a space around it. On each story there is an opening 4 *adjacent the floor* through which room air is admitted and a second opening 5 adjacent the ceiling through which the air is discharged.

*Emphasis ours.

The primary source of heat is not shown, but is apparently in the basement of the building. Derrough's disclosure is a far cry from that of Browell in which the primary source of heat (a fireplace) is disposed in the room with an economizer overlying it, this economizer, like that of Giwosky, receiving its air through vents in its base immediately above the primary source of heat.

The Bacon, *et al.*, patent [R. 343] is a fireplace with a hollow back. Air enters this hollow back from outside the house through a pipe 10, rises upwardly and is discharged through a grille 17 just above the fireplace. The device of Bacon *et al.* is the complete antithesis of Browell's structure. It *discharges* air into the room at the place where Browell *sucks the air* into his economizer, and *sucks air out of the room* near the ceiling through a grill 18 at the point where Browell *discharges* air from his economizer.

The devices disclosed by Cayot, Snyder, Derrough and Bacon *et al.*, like that of Browell, are all simple structures. No testimony is needed to explain them or to show that all are less pertinent to the Giwosky wall heater than is the device of Browell. None of them disclose an economizer in the wall immediately above the primary heater and with the air for the economizer admitted from the room directly into the base of the economizer and discharged adjacent the ceiling. Browell discloses just such a device—an economizer that is the same in all essentials as the economizer of Giwosky.

The irrelevance of the Cayot, Snyder, Derrough and Bacon *et al.*, patents is shown by Coleman's conduct in the prior litigation. In that litigation, Coleman doubtless made numerous searches in an effort to discover prior patents that disclosed structures as close as possible to its

infringing heaters. In its defense Coleman cited 14 prior patents, including that of Browell. But these prior patents did not include those of Cayot, Derrough or Bacon *et al.* They did include the Snyder patent [Orig. R. 897], but Coleman did not urge the relevance of this patent before the District Court and did not even mention it in its briefs or argument before this Court of Appeals. Instead, it relied heavily on the prior patent of Browell and undertook to show that the infringing heaters were direct descendants of Browell's device. This was not true, as this Court found. But as we have already shown, Giwosky is nothing more than the Hollingsworth heater modified in accordance with the teachings of Browell and, as such, is not an invention.

B. The Presumption of Validity of the Giwosky Patent Was Not Ignored. On the Contrary, It Was Overcome by an Abundance of Evidence That Was Not Before the Patent Office When the Giwosky Patent Was Granted.

In its opening brief (p. 7), Coleman asserts that:

“This appeal presents the unusual situation of a patent being held invalid on a motion for summary judgment where *the prior art evidence before the trial court was the same in all material respects as that which had been considered by the Patent Office prior to the granting of the patent.** This constitutes a clear disregard of the presumption of validity.”

A large portion of Coleman's opening brief, beginning at page 13, is composed of an elaboration of this false assertion.

The facts are otherwise. The Patent Office did not have before it Mr. Dawson's interpretation of the Giwosky

*Emphasis ours.

patent. The Patent Office did not have before it Mr. Giwosky's affidavit in which he swore that some of the subject matter of claim 2 of the patent had been introduced without his knowledge and that he had never considered the two stage wall heater of this claim to be a part of his invention. [R. 43.] The Patent Office did not have before it the Browell patent which, as we have just established, is more pertinent than any of the references, except Hollingsworth, that the Patent Office relied upon. The Patent Office, so far as the record shows, did not have before it the findings of the District Court in the prior litigation about the relationship of the Giwosky "improvement" to the prior art as represented by the Hollingsworth and Browell patents. The Patent Office, due to the dates involved, could not have considered the decision of this Court of Appeals in which this relationship was largely laid at rest and made *res judicata*. And the Patent Office did not have before it the damaging admissions made during the prior litigation by Coleman's Kice and its former counsel, Mr. Lyon, as to the extreme relevance of the Browell disclosure. These elements of the case were all known to Coleman and not presented to the Patent Office and must therefore be presumed to be adverse. Any presumption of validity for the Giwosky patent is completely destroyed.

This case may be unusual, but it is not unusual because the record before the Patent Office was the same as the record before the District Court. On the contrary, it is unusual because, before granting summary judgment, the District Court had had the advantage of learning all about the Giwosky, Hollingsworth and Browell devices in open court in a long trial and an accounting proceeding, and had had the further advantage that all of the real issues of fact involved had previously been laid at rest either

by Coleman's admissions or by the decision of the Court of Appeals. Siegler, of course, had the burden of overcoming the presumption of validity of the Giwosky patent, but it met that burden by incontrovertible evidence and decisions that were not before the Patent Office.

In a recent case of the Second Circuit (cited by Coleman in its Op. Br. p. 14), the Court reversed a summary judgment, saying:

"Were we skilled in the art it might be simple to determine whether there was any 'genuine issue' as to any material fact with respect to the anticipation of the second Rotheim patent, but we lack that special knowledge which would permit us to read that patent so understandingly and this record is barren of proof to enable us to do so." (*Bridgeport Brass Co. v. Bostwick Laboratories, Inc.*, 181 F. 2d 315, 319 (2nd Cir., 1950).)

The *Bridgeport Brass* case has no application here, because in the instant case both the trial court and this Court of Appeals have the "special knowledge" from the prior litigation and the record of the prior litigation bulges with the required proof.

There can be no doubt that the record of the prior litigation was before the trial court. The parties had so stipulated. [R. 277, 312.] And even in the absence of such a stipulation, the trial court would have been justified in doing so.

"The plaintiff argues that the Court could not look to the record of the prior litigation in support of the motion for summary judgment; but we think there can be no question as to the correctness of the Court's action in doing so." (*Ellis v. Cates*, 178 F. 2d 791, 793 (4th Cir., 1949).)

In the case of *Bobertz v. General Motors Corp.*, 228 F. 2d 94, 101 (6th Cir., 1955), the court noted that the trial judge had before it the prior art, numerous depositions, admissions, affidavits and photographs, and had the benefit of extensive briefs. In affirming a summary judgment of invalidity of the patent in suit the court stated:

“He was in full possession of all essential facts necessary for a correct decision of the case.”

In the instant case, the trial court looked to the record of the prior litigation to find “all essential facts necessary for a correct decision,” if any facts over and above the prior art patents and the file wrapper of Giwosky are necessary. What it found there removes the presumption of validity of the Giwosky patent and clearly supports its finding that Claim 2 of Giwosky is invalid for lack of invention. That claim is directed to one of the “immaterial variations” that Coleman made when it “faithfully copied” the Hollingsworth design, and even this “immaterial variation” is clearly disclosed in the earlier patent to Browell. [R. 144.]

As this Court recently held:

“Even one prior art reference, which has not been considered by the Patent Office may overthrow the presumption of validity and, when the most pertinent art has not been brought to the attention of the administrative body, the presumption is largely dissipated. *Such is the case here.*” (Italics added.)

Jacuzzi Brothers v. Berkeley Pump Co., 191 F. 2d 632, 634 (9th Cir., 1951).

IX.

No Further Evidence Is Required to Establish the Invalidity of Claim 2 of the Giwosky Patent.

At page 12 of its opening brief, Coleman makes the extravagant assertion that:

“If appellant had been permitted to present evidence in support of Claim 2, it would have shown that the prior art Hollingsworth design was defective, that the defect was discovered by Giwosky, and that the Giwosky device represents the first complete solution to the problem of avoiding objectionably hot walls while still achieving high efficiencies in gas wall heaters.”

A similar blatant effort to raise an issue of fact where none exists occurs at pages 30-33 of Coleman's opening brief. Here counsel calls attention to the fact that Hollingsworth taught that in order to solve the hot wall problem without loss of thermal efficiency, it is necessary to draw air into the economizer from the space inside the wall around the lower box, and then goes on to say that if Coleman had been permitted to present evidence on this point, it

“would have shown that Hollingsworth was mistaken, that what he believed to be essential and beneficial was actually non-essential and detrimental, and that the results which Hollingsworth sought are not in fact achieved by his combination, but instead are achieved by the Giwosky combination.”

This assertion flies in the face of this Court's finding that “the record establishes a ready and widespread acceptance of the Holly [Hollingsworth] device and attendant commercial success” (233 F. 2d 71, 80) and the Dis-

strict Court's finding, reiterated by this Court of Appeals, that

"the combination of elements described and claimed in the [Hollingsworth] patent in suit cooperate to permit the thermal in-put of wall heaters to be increased without bringing about excessive wall temperatures at any point in the wall from floor to ceiling, and without reducing thermal efficiency of the wall heaters; and that the invention of the [Hollingsworth] patent in suit has simultaneously solved the hot wall problem from floor to ceiling, increased thermal efficiency while permitting increased heat in-put, improved air circulation within the room, minimized heat loss due to warm air being sucked out of the room through the draft hood, and has rendered this heat loss substantially independent of flue height." (233 F. 2d 71, 81.)

The assertion also flies in the face of this Court's holding that Hollingsworth *et al.*, created "something new in overall construction and functional operation—a compact unitary wall device which could easily be adapted to the modern pattern and mode of living under conditions of urban life. . . ." (233 F. 2d 71, 84.) In short, Coleman is here, as in its appeal from the District Court's decision on the accounting in the prior litigation, attempting to re-try issues that have long been *res judicata*.

No amount of evidence could change these judicially determined facts. And Coleman's proffered evidence, whatever it might be, could not stand up in the face of its own conduct. Thus, no evidence can alter the fact that, despite its false promises, Coleman never did make and sell heaters constructed in accordance with the "important novel feature" of the Giwosky patent in which the economizers receive air through vents at the base *instead* of drawing it upward from the space in the wall around the

lower box. It is *res judicata* that the original Coleman four-foot economizers drew air from the space in the wall around the lower box as taught by Hollingsworth and that despite promises to the contrary, Coleman's second version equipped with the three-foot economizers did the same thing. (233 F. 2d 71, 84.) The District Court in the contempt proceeding found that Coleman's third version, equipped with the chute, continued to draw air in material quantities from the space in the wall around the lower box. [Acc. R. 41.] And after Coleman was held in contempt, it did not adopt the design of the Giwosky patent, in which no air is drawn upward into the economizer from the space in the wall around the lower box. Instead, as Coleman admits, it went to a design which employs no economizer at all. [Acc. R. 1623.]

In the case of *Park-In Theatres v. Perkins*, this court had no difficulty on an appeal from a summary judgment in disposing of a contention similar to Coleman's *even though the Court itself had in earlier litigation on the patent suggested that*:

" . . . The patentee has the right to fortify the presumption of validity of the patent by proof of matters tending to show that the conception of the patentee involved invention and utility." (190 F. 2d 137, 141.)

When faced with the argument Coleman is now making the Court pointed out, however, that "the parties indicated their view that nothing beyond the record as made for hearing on motion for summary judgment was essential to decision of the basic issue of validity."

" . . . We think these considerations are significant because they serve to remove the likelihood . . . that additional evidence would be useful in illuminating the question of the invention."

As in the *Park-In Theatres* case, the parties in the instant case stipulated that the court could consider an adequate record in ruling on the validity of the patent in suit. The following colloquy is significant:

“The Court: . . . If it is agreed I will take judicial notice of the papers and records in the other other case, Case No. 15,886.

Mr. Stanbury: We will stipulate that the Court may do so.

The Court: Is that agreeable to the plaintiff?

Mr. Hoegh: Yes, your Honor.”

* * * * *

The Court: Perhaps I am extending it too much. Perhaps I should say the record before the Court of Appeals.

Mr. Stanbury: Well, that’s another matter, your Honor.

The Court: You would want the entire record.

Mr. Stanbury: Oh, yes.

The Court: Very well.” [R. 277-278.]

The instant case is thus a far stronger one for granting summary judgment than was the *Park-In Theatres* case, for in the instant case the parties agreed that the Court could consider the entire record of the earlier litigation involving the prior art references and the patent in suit as well.

Nonetheless, appellant now suggests the need for proof that the reference Hollingsworth malperformed and that Giwosky solved the problem. Proof of the type suggested was presented to the District Court in the earlier case and rejected by the Trial Court and this Court.

Coleman’s expert Kice argued that problems which existed in Hollingsworth were overcome by the “inde-

pendent (economizer) air source,” the “important novel . . . feature” of Giwosky. [Orig. R. 340-358; R. 163.]

However, it is established that all Holly heaters have the necessary A.G.A. approval, and these heaters have been sold for many years. The District Court found

“That all plaintiff’s wall heaters exemplified by exhibits 20 through 20d and 44 embody the inventions claimed in the patent in suit.” [Orig. R. 26.]

The above-quoted finding included plaintiff’s wall heater models now charged to infringe. [Orig. R. 450, 465, 534; R. 14, 15; Acc. R. 1206, 1207.]

In view of the record Coleman has no standing to urge the need of a trial to show “that Hollingsworth was mistaken . . . and that the results which Hollingsworth sought were achieved for the first time by the Giwosky combination.” (Op. Br. p. 32.) Its proffered evidence is merely cumulative and would not change the result. The stark facts are that Hollingsworth was successful while Giwosky produced wall temperatures so dangerously hot that Coleman did not even bother to measure them. (233 F. 2d 71, 80.) [R. 235.]

Again the opinion in *Park-In Theatres* is appropriate.

“It is true that appellant claims generally that there are material issues of fact in dispute. But as we read the affidavits filed in connection with the motion for summary judgment, they do not disclose the occasion for proof beyond the record already made. Indeed the affidavits reveal rather clearly that on the issue of invention, the problem here is essentially one of applying legal standards to circumstances adequately before the court.

“. . . There are . . . cases where there can be little doubt what the patent claims and factual pres-

entation is not necessary to illuminate the alleged invention . . . This appears on its face to be such a case . . . and the appellant suggests nothing persuasive to the contrary.” (190 F. 2d 137, 142.)

Coleman’s proffer of evidence that is contrary to judicially determined facts in the prior litigation and to its own conduct is, to say the least, ludicrous and represents but one more effort to retry issues of fact that have been laid at rest in the prior litigation between the parties.

X.

The Giwosky Patent Is But a “Paper” Patent, Directed to Something That Coleman Promised to Do and Never Did.

“The profession is fully aware of the proper status of a paper patent. It may or may not establish or tend to establish the absence of utility, exercise of inventive genius, or extent of advance in a given art. The facts in each case must determine its status . . .” (*Staudé v. Bendix Products Corp.*, 110 F. 2d 484 (7th Cir., 1940).)

The facts in the case at bar establish the “absence of utility” and absence of the “exercise of inventive genius” in the paper patent in suit.

Giwosky applied for the patent in suit in October 1953, after he had seen the Holly heaters constructed in accordance with the Hollingsworth patent, after Coleman had begun its infringement of the Hollingsworth patent and after Holly had sued Coleman for such infringement. (233 F. 2d 71, 84.) At best it represents no more than an unsuccessful effort to avoid the Hollingsworth patent while retaining the advantages of an integrated economizer.

Holly put the Hollingsworth heater on the market in 1950 and it was an immediate commercial success. Coleman obtained one of them and undertook to design one like it. Mr. Giwosky, the patentee of the patent involved in this action, was put in charge of the work. (233 F. 2d 71, 84.) In 1952, the Hollingsworth patent issued and soon thereafter Coleman put Mr. Giwosky's first production design on the market. This was a wall heater equipped with a so-called "four foot economizer" which drew part of its air from the space around the back and sides of the lower box and another portion from the room through a grille or inlet in the lower front portion of the economizer. Holly sent Coleman a notice of infringement, and as the District Court found and this Court of Appeals reiterated.

"after Holly had sent notice of infringement of the patent in suit to Coleman, it represented to Holly that it was redesigning the Coleman wall heaters . . . to prevent the flow upward from the conduit provided outside the first box and inside the wall. . . ." [Acc. R. 430.]

Coleman's representation was in the form of two letters from its counsel, Mr. Dawson, to Holly's counsel. In the first letter, dated April 15, 1953, Mr. Dawson said:

"I have now been advised by Coleman that in view of the comments in your letter, they have decided to make a further change in the structure in which the upper unit is seated within the lower unit so that there is no possibility of any flow of air from the space about the lower unit into the upper box. I believe that this will satisfy your client and I shall plan to send a copy of the drawing of the new structure in the very near future." [R. 153-154.]

With the second letter, dated June 4, 1953, Mr. Dawson sent the promised drawing and said:

“In the drawing you will note that the second or upper box 10 is closed at its bottom and that it is open only at its forward intake 11. None of the air from about the lower box is thus able to enter the box 10. Instead, the air that enters the upper box 10 is room air passing through the entrance 11 and extending upwardly about the pipe 12 and outwardly through the discharge opening 13.” [R. 155.]

The drawing that Mr. Dawson referred to is reproduced in the record at page 157. It bears a startling resemblance to Figure 2 of the Giwosky patent [R. 69, 314] and Mr. Dawson, when he testified during the accounting proceeding, admitted on cross-examination that the two drawings were the same and applied the description quoted above from his letter of June 4, 1953 to Figure 2 of the Giwosky patent. [R. 164-165.]

In short, it appears beyond any argument that the Giwosky patent is directed to the wall heater that Coleman represented to Holly that it was going to put on the market in 1953, but which it never did put on the market. Instead, as the trial court and this Court found:

“ . . . Coleman . . . represented to Holly that it was redesigning the Coleman wall heaters . . . to prevent the flow of air upward into the second box or economizer from the conduit provided outside the first box and inside the wall, but that Coleman’s redesigned wall heaters . . . which were manufactured and sold by Coleman on or after November 2, 1953, and which employed its 3-foot economizer, did not prevent such flow of air; that Coleman’s wall heaters

. . . sold by it on or after November 2, 1953, employed its so-called 3-foot economizer which was adapted to receive air flowing upward outside the first box and inside the wall as taught and claimed by the patent in suit [the Hollingsworth patent].” (233 F. 2d 71, 82.)

The record of the prior litigation shows plainly that Coleman never did adopt the design of the Giwosky patent in which all the air is introduced into the economizer from a grille in its lower front portion and none is brought up from the space inside the wall around the lower box, or as it is expressed in the Giwosky patent, in which the air entering through the front of the economizer “*is entirely separate* from the air heated by the wall heater [the lower box].” [R. 316.] It did add so-called “chutes” to its heaters after this Court of Appeals rendered its decision, but this did not cut off the flow of air from the space inside the wall around the lower box, as the trial court found in the contempt proceeding. [Acc. R. 41.] Even after the contempt proceeding Coleman did not adopt the design of the Giwosky patent. Instead, it went to an entirely different type of heater which does not employ any economizer. [Acc. R. 1623.]

Even the alleged inventor, Giwosky, stated that the design of Claim 2 of his patent was useless. He stated that he constructed such a two-stage heater and found it was unsatisfactory and it failed to pass American Gas Association tests. [R. 41, 43, 63.] In view of the facts the status of the paper patent in suit establishes “the absence of utility [and of the] exercise of inventive genius.”

Conclusion.

This case involves no genuine issue of any material fact, and the District Court did not err when, in a summary judgment proceeding, it held the sole claim in issue invalid for lack of invention over the prior art.

The meaning of Claim 2 of the Giwosky patent is abundantly clear in the light of the admission of Mr. Dawson, the attorney for Coleman who wrote the patent application and the claim. The "important feature" of the claim is nothing more than drawing the air for the economizer directly into its base through a vent or grille (as taught by Browell), instead of drawing it upwardly from the space in the wall around the lower box (as taught by Hollingsworth).

The meaning of the two Browell and Hollingsworth patents (the only prior art relied upon by the District Court) is beyond dispute. Both patents were carefully considered and interpreted by the District Court and the Court of Appeals in the prior litigation. The device disclosed and claimed by Giwosky differs from the prior Hollingsworth device in only one particular, and this particular, the drawing of the air for the economizer directly into its base from the room, instead of upwardly from the space in the wall around the lower box is disclosed by Browell. This fact was not only admitted by Coleman but repeatedly emphasized by it during the prior litigation.

Giwosky's combination of segments of the prior art taken from Hollingsworth and Browell was not productive of any surprising results and these segments, as combined by Giwosky, do not perform any additional and different functions in combination than they perform out of it. On the contrary, the Giwosky combination is an impractical and unsuccessful device that Coleman never made and sold, despite its solemn promise to do so.

There is no issue as to the prior art as exemplified by Hollingsworth and Giwosky and no issue as to what Giwosky did to "improve" upon this prior art. The question before the District Court was purely a question of law. The District Court correctly decided that the difference between what Hollingsworth and Browell disclosed and what Giwosky patented is so minuscule that it does not amount to invention.

"Judicature is a practical business and the summary judgment procedure has been introduced into our practice as a practical device for the expeditious disposition of litigation where there appears to be no need for the usual type of trial. We think the district judge reasonably and correctly concluded that the posture of this case at the time of adjudication showed that there would be no point in taking testimony upon the question of invention. Indeed, neither in the district court nor here has appellant made apparent what, if anything, in addition to the present record might have been useful on the issue of invention." (*Park-Inc. Theaters v. Perkins*, 190 F. 2d 137, 142 (9th Cir., 1951).)

The summary judgment of the invalidity of Giwosky's Claim 2 should be sustained.

Respectfully submitted,

CHRISTIE, PARKER & HALE,

By JAMES B. CHRISTIE,

C. RUSSELL HALE,

Attorneys for Appellee.

Of Counsel:

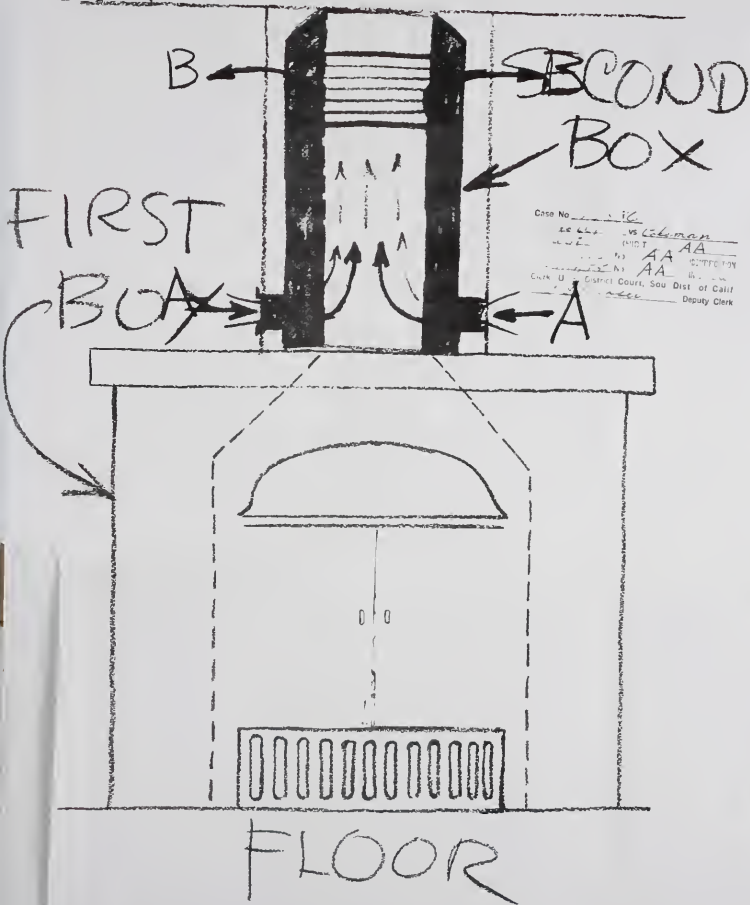
RICHARD B. HOEGH.



APPENDIX A.

FLUE

CELL



FIRST WALL HEATER

APPENDIX A



No. 16154.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE COLEMAN COMPANY, INC., a corporation,

Defendant-Appellant,

vs.

THE SIEGLER CORPORATION, a corporation,

Plaintiff-Appellee.

REPLY BRIEF OF DEFENDANT-APPELLANT THE COLEMAN COMPANY.

PARKER, STANBURY, REESE & McGEE,

315 West Ninth Street,
Los Angeles 15, California,

*Attorneys for Defendant-Appellant
The Coleman Company, Inc.*

Of Counsel:

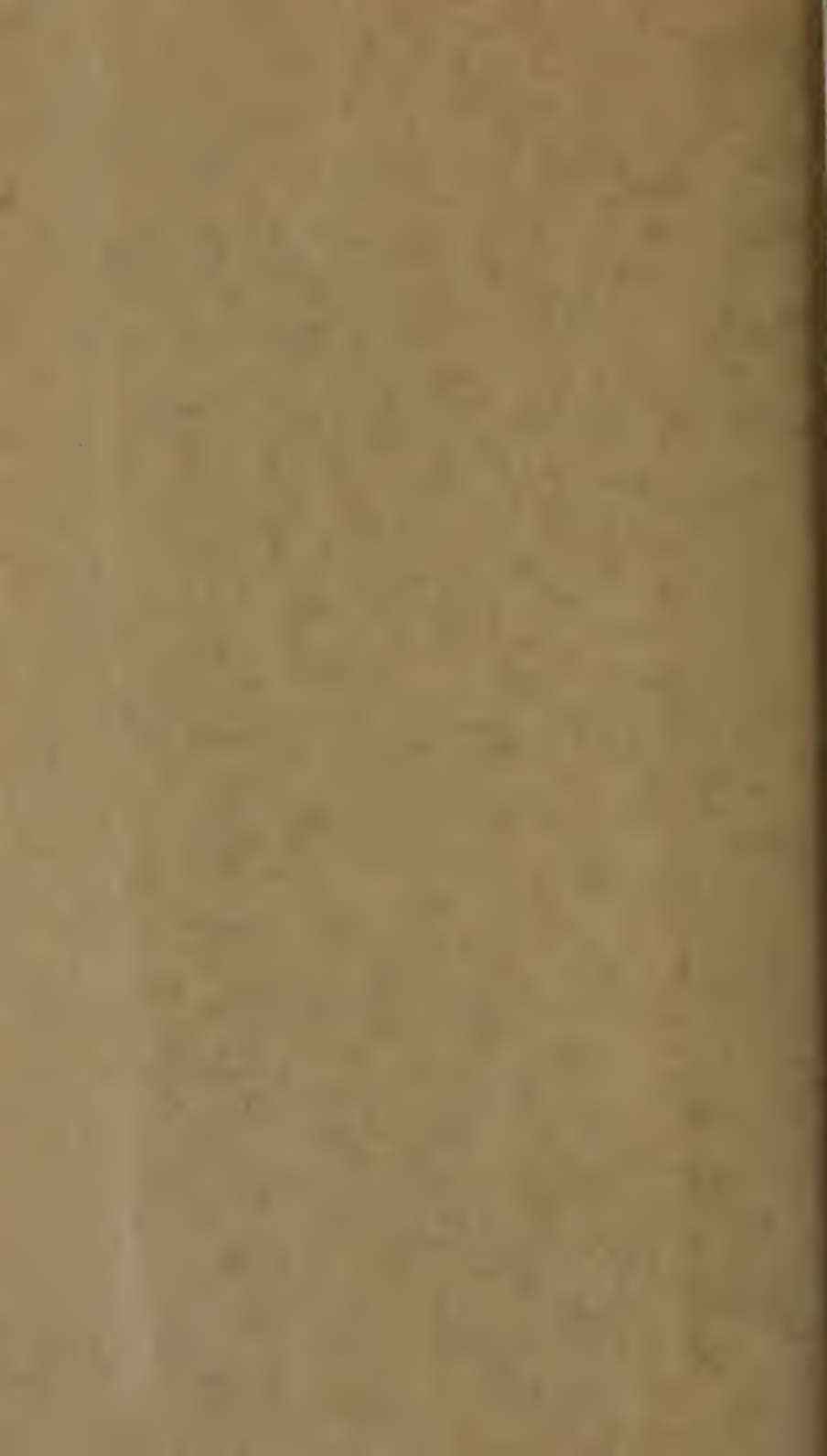
TIMOTHY L. TILTON,
DAWSON, TILTON, FALLON & LUNG MUS,
209 South La Salle Street,
Chicago 4, Illinois.

JOHN F. EBERHARDT,
FOULSTON, SIEFKIN, SCHOEPP EL,
BARTLETT & POWERS,
608 Fourth National Bank Building,
Wichita 2, Kansas.

FILE

APR 23 1959

PAUL P. O'BRIEN, C.



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No. 16154.
IN THE
United States Court of Appeals
FOR THE NINTH CIRCUIT

THE COLEMAN COMPANY, INC., a corporation,
Defendant-Appellant,
vs.

THE SIEGLER CORPORATION, a corporation,
Plaintiff-Appellee.

**REPLY BRIEF OF DEFENDANT-APPELLANT
THE COLEMAN COMPANY.**

Although many of the charges, contentions, and insinuations contained in Siegler's brief relate to matters which are not relevant to the issues presented by this appeal, Coleman has no objection to a full discussion of any aspect of the present case. Coleman will therefore make as complete a reply as possible without unduly extending the length of this brief.

**a. Siegler's Reliance on the Prior Decision in the
Holly Case Is Misplaced.**

Siegler's initial contention appears to be that Judge Mathes' decision in *Coleman Co. v. Holly Mfg. Co.* (which was affirmed by this Court on appeal, 233 F. 2d 71) supports the summary disposition of the present case, even though such disposition might otherwise have been improper. The legal basis for this contention is not stated

by Siegler, and it is clear that there is none. The Giwosky patent had not issued at the time Judge Mathes rendered his decision in the *Holly* case. Consequently, that case could not have involved, either directly or indirectly, the issues of whether the Giwosky patent is valid, or whether it is infringed by the modified heater which Holly first introduced in 1954.

It is well settled that the doctrine of *res judicata* or estoppel by judgment can have no application to issues which were not involved in the prior suit: *Davis v. Brown*, 94 U. S. 423; *Lorber v. Vista Irr. Dist.*, 127 F. 2d 628, 634 (9th Cir., 1942).

The fact that Coleman had applied for and later obtained the Giwosky patent was not relevant to any issue in the *Holly* case prior to the accounting trial therein. The operation of a company under its own patent is no defense to a charge of infringement although it is evidence of the company's good faith: *Corning v. Burden*, 56 U. S. (15 How.) 252, 272; *Creagmile v. John Bean Mfg. Co.*, 32 Fed. Supp. 646, 648-649 (S. D. Cal., 1940).

Siegler is seeking to perpetuate and extend the adjudication in the *Holly* case although it is now known to have been based on erroneous evidence. At the time Judge Mathes held with respect to the Hollingsworth patent that the differences between the Coleman heater and the Holly heater were "immaterial" on the issue of infringement, the court accepted the now discredited Landsberg tests as establishing that the lower wall spaces provided a major source of air for the Coleman economizers. Where the premise upon which a prior adjudication was based is later found to be untrue, the prior adjudication must be completely disregarded in the determination of all issues in a subsequent suit between the same parties: *West*

Coast Life Ins. Co. v. Merced Irr. Dist., 114 F. 2d 654, 661-662 (9th Cir., 1940); *National Popsicle Corp. v. Icy-clair*, 119 F. 2d 799, 800 (9th Cir., 1941).

b. Coleman's Conduct With Respect to the Giwosky Patent Shows the Utmost Good Faith.

With complete disregard for the facts, Siegler accuses Coleman of acting in bad faith with respect to the Giwosky patent. The conduct which Siegler characterizes as "stubbornly litigious" consists of (1) being sued by Siegler, and (2) appealing from a summary invalidation of its Giwosky patent. Obviously, the aggrieved party here is Coleman, not Siegler.

If Coleman had been permitted to have a trial on the issues of validity and infringement, it would have been proven that the design of the Hollingsworth patent was defective, that Giwosky discovered the defect, and that the Giwosky patent represents a better solution to the problem of how to avoid hot walls while obtaining a high efficiency in a gas wall heater. As Giwosky stated in his affidavit that was filed by Coleman in opposition to the motion for summary judgment [R. 87-88]:

"During the design and experimental work leading to the wall heater described in my patent 2,767,702, I first encountered a problem of overheating in the area immediately above the closure plate of the primary heater box. To overcome this problem I provided an opening in the heater just above this closure plate through which cool room air could circulate."

The fact that the Hollingsworth design was defective and that Giwosky had to create a new design is evidenced by a letter written in January of 1953 by Dean Olds, who was the immediate superior of Giwosky at Coleman during

the period when Giwosky developed his design. At the accounting trial in the *Holly* case, Olds testified as a witness for Holly, being no longer connected with Coleman and having served as a consultant for Holly's successor, the plaintiff herein. On cross-examination, Olds admitted the truth of the statements in his letter of January 1953, which included the following:

"At the time of the introduction of the Holly unit which has the upper radiator or heat exchanger, AGA had not tested a device of that type. Apparently after some consultation it was decided that the unit would have to be of both the economizer and the lower unit as a package. Those tests apparently were not carefully conducted, but when we retested the unit under supposedly the same conditions, we found excessive wall temperatures to exist, especially just above the outlet of the second stage warm air discharge noted at 44, fig. 1. Later this was substantiated by retest at AGA.

"I think, then, that this may be the explanation of why we found it necessary to stop the circulation of air from the bottom unit to the top unit, whereas Hollingsworth felt that this air was of advantage to him." [Holly R. 1269.]¹

Having invented what he considered to be a new and advantageous wall heater design, Giwosky applied for his patent *within one year* after Coleman began selling the Giwosky heater, as permitted by the law (35 U. S. C., Sec. 102-b, Append. B.). In the affidavit filed in behalf of Coleman in this case, Giwosky confirmed that there had

¹The citation is to the five-volume record in *Coleman v. Holly*, Appeal No. 16141, which record has been incorporated herein by stipulation.

been no public use or public disclosure of his invention more than one year before the filing date of his patent [R. 88]. Siegler's criticism of the short delay in applying for the Giwosky patent is therefore immaterial as a matter of law.²

c. The Basis for the Asserted Infringement.

At the time the Giwosky application was filed (October 1, 1953), Holly was manufacturing wall heaters exactly as shown in its Hollingsworth patent [R. 80, 87]. However, when Holly was required to submit its heater for retest by AGA in 1954 pursuant to new retroactive requirements [Holly R. 1164-1165], the Hollingsworth design was modified [R. 80]. In making the 1954 modification (which provides the basis for Coleman's charge of infringement herein), Hollingsworth had full knowledge of the Giwosky design, the Coleman heaters incorporating this design having been on the market all during 1953 [R. 80].

In the present case Coleman is not complaining about a mere unintentional air "leakage". The new opening which Holly provided in its modified heaters of 1954 is located in exactly the same position as the direct room air inlet of the Giwosky design, and the passage extending between

²It is also immaterial that Claim 2 of the Giwosky patent was not presented in its final wording until shortly before the allowance of the patent. This claim was not directed to new subject matter. Claim 3 of the original application covered the same air inlet arrangement (Giwosky file wrapper, p. 7). In the negotiations between an applicant and the Patent Office, the applicant is permitted to amend his claims or to present rewritten claims for the purpose of more accurately defining the inventive subject matter: *Glade v. Walgreen Co.*, 122 F. 2d 306, 311 (7th Cir., 1941); *Coats Loaders & Stackers, Inc. v. Henderson*, 233 F. 2d 915, 924 (6th Cir., 1956); *Carson v. American Smelting & Refining Co.*, 4 F. 2d 463, 470-471 (9th Cir., 1925).

this opening and Holly's economizer inlet is of such a size that both hands can be inserted therein. [See opening marked "O" in Exhibit A attached to the Newton affidavit, R. 85, 80.]

As stated in the Newton affidavit filed by Coleman herein [R. 80]:

"In 1954 the Holly Manufacturing Company introduced a new line of gas wall heaters, which in my opinion included a feature that to my knowledge had previously been offered commercially only on the line of wall heaters which the Coleman Company began selling late in 1952. Holly had a line of wall heaters on the market during the years 1952 and 1953, but the wall heaters that it was selling in those years did not provide a room air inlet on the front of the heater immediately above the closure plate for the lower box. The line of heaters which Holly introduced in 1954, however, did provide such an opening."

To facilitate a comparison between the original Hollingsworth design and the Giwosky design, the principal figure from the drawings of each patent is reproduced in Appendix A hereto, and explanatory legends concerning the air flows have been added to the figures. As pointed out on these exhibits, the Hollingsworth design as shown in his patent is completely devoid of any kind of air inlet for supplying room air directly to the economizer. It necessarily follows that the specific air inlet arrangement of Claim 2 cannot be derived from anything found in the Hollingsworth patent.

The situation is quite different with respect to Holly's modified design of 1954 [R. 85, 80], as well as with respect to the wall heaters presently manufactured and sold by Siegler, which were introduced in 1957 [R. 86, 81].

These wall heaters do have an air inlet arranged in the manner described in the Giwosky patent. It is evident, therefore, that the present suit involves a substantial issue of infringement.³

d. The Contention That Coleman Never Used the Giwosky Design Is Easily Refuted.

It has never heretofore been seriously disputed that the Coleman economizers at least partially utilized the air inlet means of the Giwosky patent. In fact, even the erroneous Landsberg data indicated that most of the air in Coleman's economizers was admitted directly from the room [Holly Orig. R. 226-227].⁴ Actually, as the evidence in the *Holly* case now conclusively demonstrates, the only wall space or so-called "pink" air reaching the economizers in the Coleman heaters was mere incidental leakage which had no useful or beneficial effect [Holly R. 1592-1594, 1749-1751, 1504-1515, 1579-1581].

Nevertheless, Siegler contends in its brief that the design used by Coleman was not in fact the Giwosky design because such leakage did occur. Siegler (Br. 3, 51-52) refers to letters written by Mr. Dawson which are said to represent that the Giwosky design did not involve supplying the economizers with the so-called "pink" air. However, in these letters Mr. Dawson was not excluding the possibility of an incidental leakage of pink air, as indi-

³If the Giwosky patent has merely a "nuisance value", it is strange indeed that Siegler filed this suit for declaratory judgment only two days after it replied to Coleman's notice of infringement [R. 6, 131]. In this connection it may also be noted that prior to the bringing of its motion for summary judgment, Siegler took extensive depositions in the case at bar. Such actions are obviously inconsistent with Siegler's claim that it regards the Giwosky patent as of no significance.

⁴The reference is to the original three-volume record in *Coleman v. Holly*, also incorporated herein by stipulation.

cated in the last paragraph of one of the letters [R. 155-156]. This interpretation is also in accordance with Mr. Dawson's testimony at the accounting trial in the *Holly* case [Holly R. 789]:

“Q. (By Mr. Stanbury): Now, when you wrote this letter [Pl. Ex. 12, R. 154-156] you evidently had in mind the possibility of some leakage from around the lower box into the economizer, is that correct? A. That is correct.”

The heater shown in the drawings of the Giwosky patent does in fact correspond exactly with Coleman's commercial heater [R. 314, Holly Accounting Ex. AA].⁵ Even the space through which the pink air leaked into the economizer can be seen in Figure 2 of the Giwosky patent [R. 314; also see reproduction of Fig. 2 in Append. A and explanatory legends thereon.]

e. Siegler's Generalized Treatment of the Subject Matter of Claim 2 Is Prohibited by Law.

In its brief (7-8) Siegler quotes Claim 2 of the Giwosky patent, but thereafter makes no attempt to apply the specific limitations of this claim to the prior art. Instead, Siegler seeks to generalize the subject matter of Claim 2 for the purpose of providing itself with a target which may be attacked on a somewhat more plausible basis. This is prohibited by the well established rule that it is the precise language of the *claim* which defines the dis-

⁵The fact that Coleman did not mark the Giwosky patent number on its wall heaters has no bearing on the matter. Such marking was impossible prior to the issuance of the patent on October 23, 1956. Thereafter, as an alternate to marking, a notice of infringement was sent to Siegler, the only known infringer, within a few weeks after the issuance of the patent [R. 131]. This is in accordance with the statutory provision which eliminates the marking requirement in establishing a right to damages where actual notice is given (35 U. S. C., Sec. 287, Append. B).

tinctive features of the invention in relation to the prior art: *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 336 U. S. 271, 277; *Mojonnier Dawson Co. v. U. S. Dairy Sales Corp.*, 251 F. 2d 345, 351 (7th Cir., 1958).

The difference between the Hollingsworth design and the Giwosky design as defined in Claim 2 does not lie merely in the provision of an inlet for supplying the economizer with room air, although this difference was the one which was especially relevant in relation to the infringement issue in the *Holly* case. As discussed at considerable length in Coleman's opening brief (6, 8-9, 20-26), Claim 2 is directed to specific features of the Giwosky design combination which are not found in the prior art. In the arrangement specified in Claim 2, the room air, before being introduced into the bottom of the economizer, passes over the upper surface of a "barrier plate" in "heat exchange relation therewith."⁶ As further brought out in the claim, this "barrier plate" forms the top of the lower or primary heater, and the "heated air outlet" for the lower heater is "adjacent the underside" of the barrier plate. This construction, which is not found in the Hollingsworth patent or any of the other prior art patents,⁷ permits the extremely hot air from within the primary heater to be discharged to the room at a point immediately beneath the lower end of the room wall without raising the temperature of the room wall to an objectionably high level (see Giwosky File Wrapper, p. 54).

⁶Siegler's denial (Br. 22-26) that this phrase requires elucidation by expert testimony is not convincing because it was Siegler that raised the question below as to the meaning of the phrase (Op. Br. 26-28).

⁷At the very least this is clearly a triable issue which should not have been resolved against Coleman's patent on a motion for summary judgment.

In its examination of the Giwosky application, the Patent Office was well aware that it was not broadly new to supply room air to an economizer. The Bacon and Derrough patents [R. 343-346, 341-342], which were officially cited against the Giwosky application, establish this fact. These patents also demonstrate that Claim 2 could not cover *merely* what Siegler chooses to say it covers, else it would not have been allowed in the first place (Op. Br. 18-19).

As demonstrated in Coleman's opening brief (9, 19, 22-24), the Browell patent is at most only cumulative of the Bacon and Derrough patents, and cannot therefore be regarded as having any special status on a motion for summary judgment. Siegler, however, instead of meeting the issue squarely has attempted to rely on certain statements which were made by representatives of Coleman at the original trial in the *Holly* case.

The quoted statements are to the effect that the principle of supplying room air directly to an economizer is shown in the Browell patent. This is true. However, the specific arrangement defined in Claim 2 was not under consideration when the statements were made. As to the relative pertinence or non-pertinence of the Browell patent, it can be pointed out that throughout the appeal in the prior suit, *Holly* emphatically denied that Browell had any particular relevance to the Coleman heaters. For example, on page 33 of its brief to this court in the prior case, *Holly* stated:

"A study of the Browell patent, moreover, shows that what it discloses *is basically* [*sic*] different from what defendant makes himself. All that Browell discloses is a jacketed pipe connected to a fireplace.
* * * In short, the Browell fireplace and jacketed flue bear no more than a superficial resemblance to defendant's wall heaters."

The Trial Court's Findings of Fact in This Case Obviously Cover Disputed Issues.

The lower court entered twenty-three Findings of Fact [R. 130-135]. Eleven of these, Findings 12 through 22, unmistakably involve disputed issues of fact. These fact questions all relate to the primary issue of whether the Giwosky patent is valid over the prior art, or more specifically, whether the subject matter of Claim 2 is anticipated by the Browell patent and the Hollingsworth patent. Since Coleman's Statement of Genuine Issues designated the foregoing issues as involving genuine, material, and triable questions of fact [R. 92, Issues 14, 16, 17], it was clear error for the trial court to decide them on motion for summary judgment: *Bridgeport Brass Co. v. The Bostwick Laboratories*, 181 F. 2d 315, 316 (2d Cir., 1950); *Glenn v. Southern California Edison Co.*, 187 F. 2d 318, 321 (9th Cir., 1951).

In dismissing the presumption of validity attaching to the Giwosky patent as being of no significance, the trial court assumed (although the question was plainly disputed and triable) that the Browell patent was more pertinent to the subject matter of Claim 2 than the patents cited by the Patent Office (Op. Br. 13-18). The lower court took this action notwithstanding the fact that Coleman's Statement of Genuine Issues squarely called into question the factual basis of this assumption [R. 92-93, Issues 18 and 19]. Here again the trial court committed unmistakable error in deciding disputed issues of fact on a motion for summary judgment.

Siegler's attempt (Br. 13-20) to dismiss the findings herein as "a handy summary" merely serves to call attention to the gross departure of the lower court from the established rule governing the granting of summary judg-

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Siegler's attempt (Br. 13-20) to dismiss the findings herein as "a handy summary" merely serves to call attention to the gross departure of the lower court from the established rule governing the granting of summary judg-

ments. Of course, the findings herein summarize facts, but the controlling consideration is that they summarize *disputed* facts and form part, at least, of the court's basis for entering summary judgment.

Siegler (Br. 13) cites the recent decision of this Court in *Trowler v. Phillips*, 260 F. 2d 924. However, that case is clearly unfavorable to Siegler's position on this appeal. As pointed out in the *Trowler* case, "all too often a set of unnecessary findings of fact is the telltale flag that points the way to a discovery that summary judgment should not have been granted." The error in the present case is even more evident than it was in the *Trowler* case. The findings entered herein were prepared by Siegler's counsel, and if all of them were not considered necessary to support the judgment, why then were they presented and entered?

g. Siegler Confounds the Distinction Between Issues of Law and Issues of Fact.

It is true, as indicated in Siegler's brief (21-22), that the question of validity of a patent is ultimately a question of law. However, it is equally evident that before the proper legal standard can be applied, the facts must first be found. The issue of patent validity necessarily involves the determination of fact questions, which once resolved may well be completely binding on a reviewing court. (See *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 336 U. S. 271, 275.)

Siegler does admit (Br. 22) that "the nature of the prior art and what the patentee did to improve upon it . . . are questions of fact." Siegler goes on to say, however, that these matters "are not genuine issues for dispute", apparently because the trial court as well as this

Court are assumed to already know the answers, having had an opportunity to become familiar with some of the subject matter in connection with the prior *Holly* case. Siegler fails to point out, however, where in the prior suit the specific fact issues here involved became relevant and were decided. They never were. Obviously, Coleman has had no opportunity to introduce evidence on the following questions, which among others first became material in connection with the *present* suit:

- (1) Does the specific air inlet arrangement covered by Claim 2 of the Giwosky patent differ patentably from the disclosure of the Browell patent?
- (2) Would the Browell patent suggest to a man skilled in the gas wall heater art that the design of the Hollingsworth patent should be modified in the manner taught by Giwosky and covered by Claim 2 of his patent?
- (3) Can any elements and structural relationships defined in Claim 2 which fail to correspond with anything disclosed by Browell or Hollingsworth be dismissed as immaterial?
- (4) Can the air inlet arrangement of Claim 2 be considered to have been obvious to a man of ordinary skill in the wall heater art, or to be lacking in patentable novelty, when the closest prior art patent (Hollingsworth) teaches that the economizer should be supplied entirely with air from the lower wall spaces?
- (5) Does the specific combination of Claim 2 produce any result not produced in the prior art, or any unexpected result?
- (6) Exactly where in the prior art, if at all, can there be found the elements and structural relationships defined in Claim 2?

- (7) Do the elements of the Giwosky combination, insofar as present in the prior art, perform any additional or different functions in the Giwosky combination than they performed in the prior art?

The lower court's findings [R. 132-135] clearly could not have been entered without a determination of each of the above disputed and triable questions of fact. This represents fundamental error on a motion for summary judgment.

Conclusion.

The decision below that this suit contains no issue worthy of trial is clearly erroneous. Therefore, this Court is respectfully requested to remand the case for a full hearing on the validity and infringement issues.

Respectfully submitted,

PARKER, STANBURY, REESE & MCGEE,

By RAYMOND G. STANBURY,

*Attorneys for Defendant-Appellant,
The Coleman Company.*

Of Counsel:

TIMOTHY L. TILTON,

Dawson, Tilton, Fallon & Lungmus,

209 South La Salle Street,

Chicago 4, Illinois.

JOHN F. EBERHARDT,

Foulston, Siefkin, Schoeppel, Bartlett & Powers,

Fourth National Bank Building,

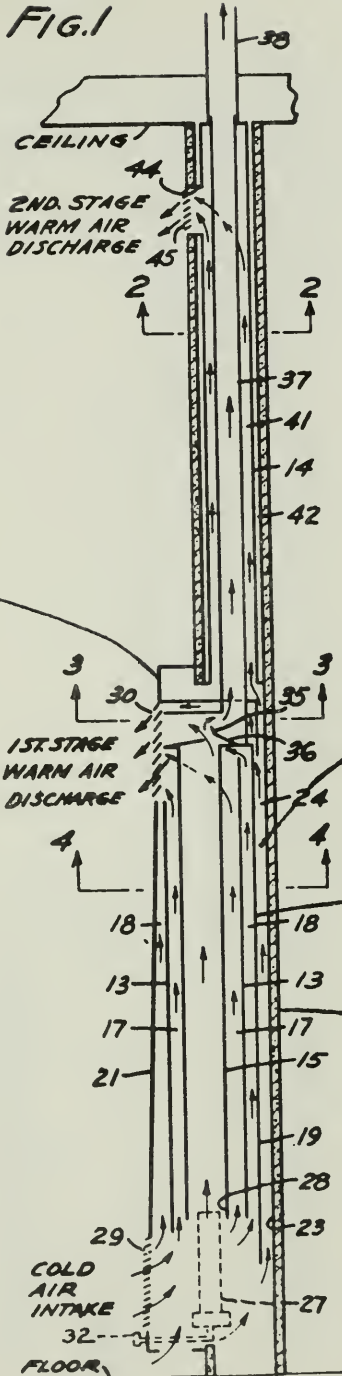
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APPENDIX A.



FIG. 1

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APPENDIX B.

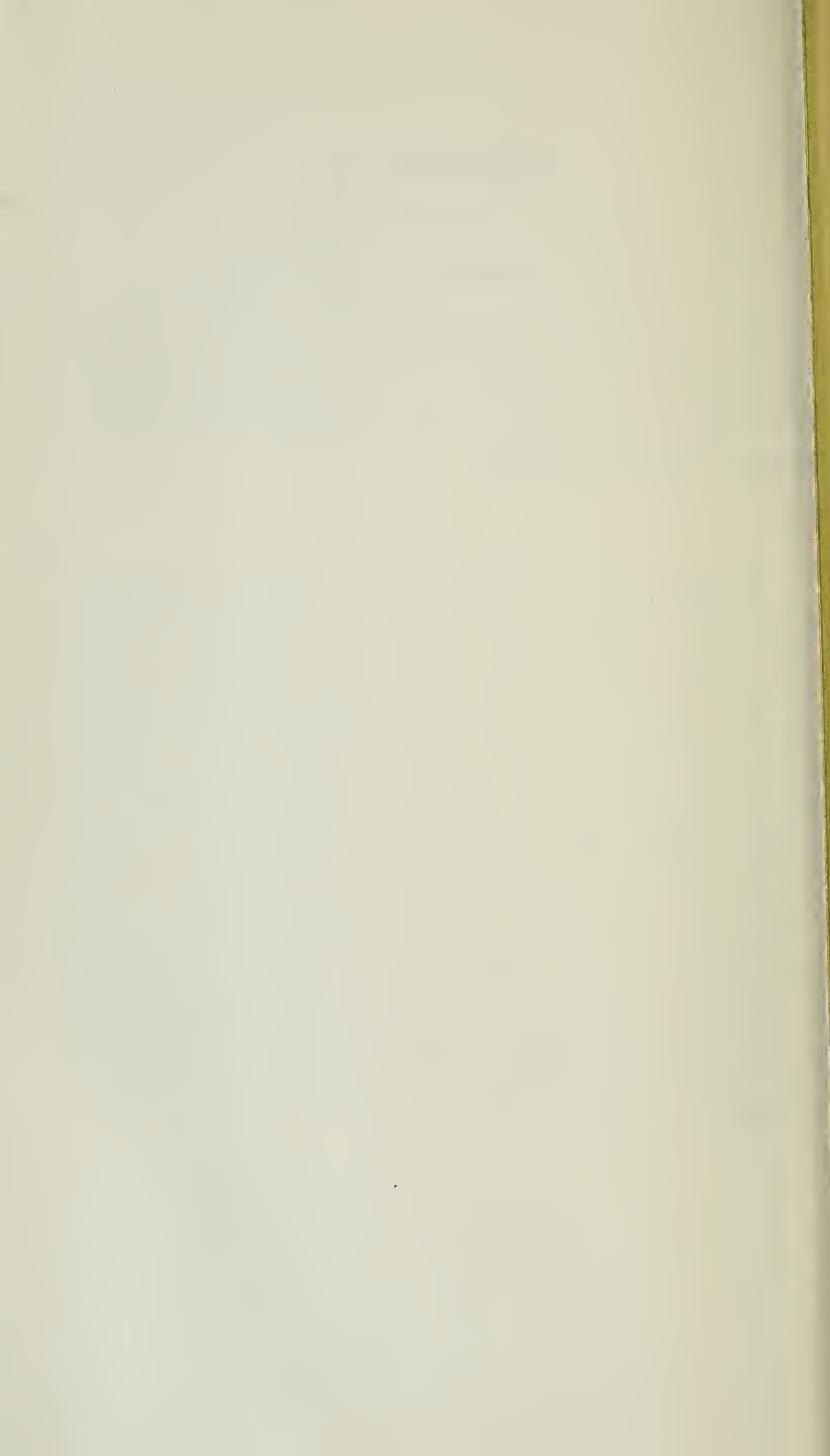
35 U. S. C., Sec. 102(b).

“A person shall be entitled to a patent unless—

“(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, *more than one year* prior to the date of the application for the patent in the United States,” (Emphasis added.)

35 U. S. C., Sec. 287.

“Patentees, and persons making or selling any patented article for or under them, *may* give notice to the public that the same is patented, either by fixing thereon the word ‘patent’ or the abbreviation ‘pat.’, together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, *except on proof that the infringer was notified of the infringement* and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.” (Emphasis added.)



No. 16162 ✓

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

CRISTOBAL G. PADILLA,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

LAUGHLIN E. WATERS,
United States Attorney,

ROBERT JOHN JENSEN,
Assistant U. S. Attorney,
Chief, Criminal Division,

GEORGE W. KELL,
Assistant U. S. Attorney,

600 Federal Building,
Los Angeles 12, California,

Attorneys for Appellee.

FILED

FEB 21 1959

PAUL P. O'BRIEN, CLERK

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No. 16162

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

CRISTOBAL G. PADILLA,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

A. Statement of Jurisdiction.

This is an appeal from the judgment of the United States District Court for the Southern District of California adjudging appellant to be guilty of two counts of an indictment involving other co-defendants. All counts in the indictment involved violations of Title 21, United States Code, Section 174. The violations occurred in San Diego, Imperial, Los Angeles, and Orange Counties, State of California, and within the Central Division of the Southern District of California.

The jurisdiction of the District Court was based upon Section 3231 of Title 18, United States Code. This Court has jurisdiction to entertain this appeal and to review the judgment in question under the provisions of Sections 1291 and 1294 of Title 28, United States Code.

B. Statement of the Case.

The indictment, in five counts, was filed on March 13, 1957, essentially charging the appellant and his co-defendants, Antonio Espinoza Ramos and Isaac Gomez Gomez with violations of Title 21, United States Code, Section 174, as follows:

COUNT ONE: On February 4, 1957, defendant Ramos sold and facilitated the sale of approximately 343 grains of heroin and 5½ ounces of smoking opium.

COUNT TWO: On February 7, 1957, defendant Ramos sold and facilitated the sale of approximately 26 ounces of smoking opium.

COUNT THREE: On February 20, 1957, defendant Ramos received, concealed, and transported and facilitated concealment and transportation of 9½ ounces of heroin.

COUNT FOUR: On February 20, 1957, defendants Gomez and Padilla received, concealed and transported and facilitated concealment and transportation of 25 ounces of heroin.

COUNT FIVE: Beginning February 4, 1957, and continuing to the date of the indictment, March 13, 1957, defendants Ramos, Gomez and Padilla conspired to import narcotic drugs and, after importation, to conceal, sell, transport and facilitate concealment, sale and transportation of narcotic drugs. In this count, among other overt acts, it is alleged that Gomez and Padilla facilitated the transportation and concealment of approximately 25 ounces of heroin.

The trial court, sitting without a jury, dismissed count one at the conclusion of the government's case in chief [T. 452] and, on May 6, 1957, found the defendant

Ramos guilty on counts two, three, and five, and defendant Gomez and appellant were each found guilty on counts four and five [T. 1001, 1002].

C. Statement of Facts.

The case was called for trial on April 23, 1957, the Honorable Harry C. Westover, Judge, presiding. An interpreter was sworn, and remained present throughout the trial [T. 3]. Each defendant, by his attorney, and individually, waived trial by jury [T. 4].

Inasmuch as this appeal is made by only one of the defendants it is deemed appropriate to focus attention to those facts pertaining to the appellant Padilla. However, an understanding of Padilla's part in the case necessarily involves some analysis of the initial negotiations leading up to his arrest, although he did not participate directly in those negotiations.

The first contact made with any of the defendants was by R. S. Cantu, an agent of the Bureau of Narcotics. Cantu met Ramos in Calexico, California, on February 4, 1957 [T. 8]. Ramos was introduced to Cantu as "David Trevino" [T. 10]. A sale of heroin and opium was consummated at this meeting for a total of \$475 of government advanced funds [T. 19]. Cantu specified that all future deliveries of narcotics would have to be made in the vicinity of Los Angeles [T. 16]. They discussed the prices that would be paid for future deliveries [T. 17] and Ramos said that he had "big connections" in Mexicali [T. 18].

On February 6, 1957, Cantu and Ramos had a telephonic conversation [T. 38] in which Ramos told Cantu that he had a better proposition [T. 42] to offer Cantu. Ramos indicated that "his boss" had a better proposition to offer Cantu [T. 43].

Cantu and Ramos next met on February 7, 1957, in Anaheim at the Valencia Hotel [T. 44]. At this time Ramos referred to "some cousin of his or some friend of his" who was bringing narcotics from Culiacan, Sinaloa [T. 46]. Ramos told Cantu that he himself was not able to handle the large amounts of narcotics that Cantu required, but a very close friend of his, who owned a jewelry store in Mexicali, named Isaac Gomez could [T. 47]. Arrangements were then made for Cantu to meet Gomez in Los Angeles the next week [T. 49]. Thereupon the sale of smoking opium referred to in Count Two was consummated [T. 50].

On February 12, 1957, defendant Gomez was introduced to Cantu by Ramos [T. 61]. The following day, while cruising on board a yacht operated by other narcotic agents [T. 67] Gomez offered to deliver forty ounces of heroin to Los Angeles on the week following with a promise of larger quantities thereafter [T. 70]. Details for delivery of the forty ounces were then discussed [T. 71].

The following week, on February 18, 1957, Ramos telephoned Cantu and thereupon put Gomez on the phone [T. 74]. After some discussion Gomez told Cantu "You wait there and I will call you back. I have to talk to some people and I will call you back about 3:00 or 3:30 this afternoon" [T. 76]. On a subsequent telephone conversation that same day [T. 76] Ramos told Cantu that "they" would leave Mexico the following morning with thirty-five ounces of heroin [T. 77]. On February 19, 1957 Ramos called again to state that he and Isaac had not been able to cross the border, that there is "a little trouble down here. It is nothing to worry about. We will be there tomorrow" [T. 78].

On February 20, 1957 Cantu met Ramos in the coffee shop of the Valencia Hotel in Anaheim [T. 80]. Ramos told Cantu and Frank S. Vronek, of the Los Angeles District Attorney's office, that he, Ramos, had brought thirty-five ounces of heroin for delivery but that Gomez was not with him at the time. Gomez had left the same morning from Mexicali "with another person," was going to make a delivery of narcotics in San Fernando, and as soon as he was finished with that was to join them in Anaheim [T. 81].

Cantu thereupon left Ramos and went to his parked government automobile until 5 o'clock when Gomez appeared [T. 82]. Gomez told Cantu to wait until Ramos came by and then follow Ramos in his car [T. 83].

At about 5:30 P.M. Ramos drove up to Cantu's car and said, "Follow me" [T. 85]. At this time Ramos was not wearing a wool jacket which he had previously been wearing when Cantu saw him in the coffee shop [T. 86]. Cantu then followed Ramos' 1950 Chevrolet to the Highway 101 Motel in Orange, California [T. 87]. In the motel Ramos told Cantu that he had only ten ounces of heroin for delivery, that Issac Gomez had told him not to deliver the full thirty-five ounces until he received money for the ten ounces at which time Gomez would give him, Ramos, the remaining twenty-five ounces for delivery [T. 88]. Ramos stated that "the person that was with Gomez now was advising Gomez not to deliver the whole amount until he got some money for the first ten ounces" [T. 89]. Cantu refused to deal on these terms [T. 89] whereupon Vronek and Ramos left the motel at about 6:00 P.M. They returned about 7:00 P.M. [T. 90] whereupon Ramos stated that Gomez would not deal except on the terms previously stated [T. 91]. Ramos said, "that the person

that was with Isaac Gomez kept advising Gomez not to deliver" [T. 91]. Ramos said that Gomez had the twenty-five ounces in an automobile in Anaheim [T. 92]. Thereupon Ramos was arrested [T. 93].

Ramos was seen walking east on Center Street in Anaheim at about 3:45 P.M. on February 20, 1957 by William Gilkey, a Narcotic Agent [T. 248]. At that time Ramos was wearing a jacket [T. 255]. At about 4:15 or 4:30 P.M. Ramos was seen by Gilkey talking to Gomez and Padilla on the corner of Center and Los Angeles Streets. Gilkey later saw Ramos with Frank G. Vronek, at the Highway 101 Motel [T. 253]. This was about 6:45 P.M. or 7:00 P.M. and at that time Ramos was not wearing his jacket [T. 255]. Gilkey testified that after Gomez and Padilla had the conversation with Ramos just referred to he observed them entering the two-tone black Buick with a Baja license plate [T. 253]. They drove around Anaheim for about an hour after which the witness lost them due to a car failure [T. 254].

Frank G. Vronek, an investigator for the office of the Los Angeles District Attorney for eleven years [T. 267] testified that on February 20, 1957, he saw the defendant Ramos in the Valencia Hotel coffee shop. Cantu was with Ramos and they conversed in Spanish in his presence for about five minutes [T. 268]. At the conclusion of the conversation Cantu told Vronek to stay with Ramos and left. Ramos was eating some pie and they conversed in English. Ramos said that he was going to leave; that Vronek should wait for him as he was going to meet Isaac and that there was another man with Isaac whom Isaac did not want anyone else to see [T. 269]. He remained in the cafe until Mr. Cantu returned. He also saw Gomez on that day at about 4:40 P.M. He saw

Gomez going out of the driveway of a cafeteria located at the corner of Los Angeles Street and Center Street in Anaheim. The defendant Padilla was with Gomez [T. 271]. He had a brief conversation with Gomez and when this was finished Gomez spoke to Padilla in Spanish after which Padilla left them and walked to a bar on Los Angeles Street. Gomez thereupon crossed Center Street and the witness lost sight of him [T. 272].

An hour later he saw Gomez walking past Agent Cantu's Government vehicle and he called Gomez back to the vehicle [T. 273]. He later saw Ramos about 5:35 P.M. seated in a grey Chevrolet coupe with a Baja, California, plate. He entered the Chevrolet [T. 274]. Ramos was not wearing a jacket at the time, but he had been wearing one about 3:40 in the afternoon when he had previously seen Ramos. At 5:35 P.M. it was cool [T. 276]. They drove to Center Street near Los Angeles Street in Anaheim, parked the vehicle, and Ramos got out looking for Isaac Gomez [T. 277]. The witness then saw Gomez and Padilla on the sidewalk near a barber shop on Los Angeles Street. They were talking [T. 278]. Each of the defendants talked but the witness could not understand the words. Defendant Ramos directed the conversation to Gomez at which time Gomez turned to Padilla and the witness observed Padilla making a motion with his head as if to make a negative answer [T. 280]. Then Ramos returned to the car and said, "Isaac doesn't want to give me the 25 ounces. The other man, he has got a deal, and he is the reason why Isaac doesn't want to deal" [T. 280-281].

Ramos left the car again, and went back and talked to Gomez in the presence of Padilla. Padilla appeared to speak only to Gomez [T. 281]. Ramos then came back,

got into the vehicle and they dove to the Motel. On the way Ramos told the witness that the other man did not want Isaac to go through with the deal, that Isaac wanted the money for the ten ounces that were in the motel and afterwards he would let Ramos deliver the additional 25 ounces. Ramos stated that the 25 ounces were in a jacket that he had been wearing [T. 282] earlier in the day. He said that he had concealed the 35 ounces in between the springs of the seat of the car when they crossed the border; that Isaac and Padilla came in another car; that they had approximately the same amount of carga (a general term meaning narcotics); that they were late on account of taking the other carga somewhere else; that the jacket was then in the possession of Gomez and Padilla and that there was no way of getting to it. Ramos also said that the 25 ounces, in three bundles of 10, 10, and 5 ounces, respectively, were in the pockets of the jacket, and the jacket was in the Padilla vehicle [T. 283].

Ramos said that he and Padilla had had a fight in a Mexicali bar over some woman and that Padilla did not like him and didn't want him to make any money out of the pending deal [T. 284]. The witness returned to the motel room with Ramos where Ramos was arrested.

At about 10:15 that same evening the defendants Gomez and Padilla were arrested by Deputy Sheriff George A. Fullenwider of the County of San Diego [T. 356-358]. Padilla was driving, and Gomez was a passenger in the vehicle [T. 358], a 1950 Buick 4-door sedan with License Number 271262, Baja, California [T. 357]. This vehicle was registered to Cristobal Gonzales Padilla [T. 416].

A coat was found lying in the back seat of this vehicle [T. 396]. This coat, or jacket, Government's Exhibit 5

[T. 397], contained three packets [T. 399] which, in turn contained narcotics [T. 344]. The sum of \$2,160 in United States currency was found in the glove compartment of the automobile [T. 400] and Padilla admitted that this money was his [T. 401]. Padilla gave the name Pedro Gonzales Martinez [T. 374], which he admitted was not his true name [T. 703]. He used that name because "that was the name on his passport" [T. 718].

At the conclusion of its case in chief the government moved that all evidence with respect to the acts and declarations of the defendant Ramos on the 20th of February, 1957, and up to the moment of his arrest be received in evidence and considered as to the defendant Padilla; that all of the acts and declarations of the defendant Gomez up to the moment of his arrest be received in evidence as to defendant Padilla; and that all acts and declarations of defendant Padilla be received and considered as to all defendants [T. 422]. The court deferred ruling on this motion until the conclusion of the case, and after having heard all evidence the court granted the motion [T. 1001].

Ramos claimed that he received the 35 ounces of heroin from a Mexican named Ysidro Lopez [T. 539] on the 20th of February [T. 540] and he denied receiving it from Isaac Gomez [T. 541]. He admitted that he brought it across the border [T. 541] to Anaheim in a 1950 or 1951 White Chevrolet which he borrowed from a friend [T. 542]. He claimed he was employed by Ysidro Lopez to bring the heroin to Anaheim and that he was not employed by Gomez or Padilla [T. 543]. He admitted that the coat, Exhibit 5, was his [T. 545]. When he left Mexicali he had the heroin in the seat of his car. There were four different packages of heroin [T. 546]. He put some of the heroin in his coat when he was at the motel.

After he registered at the motel he claimed that he accidentally bumped into Gomez and Padilla on the street in Anaheim [T. 548]. He put the jacket containing three packets of heroin in a light green car which was parked outside the restaurant near where he met Gomez and Padilla. He "did not know who owned the car" but Gomez indicated that he had come up from Mexico in it. After leaving the jacket in the car he just walked away, supposedly leaving approximately \$14,000 to \$16,000 worth of heroin unguarded in an open vehicle [T. 570-574].

Padilla testified that he wanted to buy a truck in Los Angeles [T. 656]. He had about \$2,300 which he took out of his bank, the Banco Mexicana De Occidente [T. 657], and on the 20th of November, 1957, he left for Los Angeles with Isaac Gomez [T. 658]. They left Mexicali about 9:45 or 10:45 a.m. and arrived in Anaheim at about 4:30 p.m. [T. 664], after having stopped at Los Angeles where they arrived about 3 or 3:30 p.m. [T. 665]. He was with Gomez at the restaurant, and then, about 6 p.m. he decided to rent a room. They went to a motel and he rested for about 45 minutes, then left and went to a bar, and thereafter drove around and bought some liquor before they left town for Tiajuana about 8 p.m.

They had come from Mexicali by way of Route 99 but returned to Mexico by way of U. S. Highway 101 [T. 674]. Padilla claimed he decided to return by way of Tiajuana because he had not found a satisfactory truck in Los Angeles and thought that perhaps he might find one in Tiajuana [T. 675]. Padilla admitted that he knew the jacket was there, and he admitted to circumstances which should have caused him to have been curious about the jacket [T. 680], but he denied that he ever investigated the jacket [T. 681], and he denied all knowledge as to narcotics or narcotics transactions [T. 682].

Padilla testified that they looked for the truck, which they had come all the way to Los Angeles to buy, for "5 or 10 minutes" while he was driving around "looking at lots" [T. 695]. He owned a "miscellaneous" store in Mexicali. While in the United States he bumped into Ramos in Anaheim completely by accident [T. 690].

Padilla testified that he withdrew about \$1,700 from the Banco Mexicano De Occidente for the purpose of buying the truck [T. 822]. This sum was withdrawn in December of 1956, and was kept in his house [T. 822] after that date, until he came to Anaheim on February 20, 1957.

Although Padilla denied any connection with the sale of the narcotics by Ramos, Government's Exhibit 7, a registration card from the Highway 101 Motel, Orange, California, was found in his glove compartment at the time he was arrested at the border [T. 913-914]. (This was the motel where Ramos had registered and had talked to the narcotics agents.) Padilla admitted that he registered in a motel in Anaheim [T. 697], that the motel was "more or less" the same distance from Anaheim as the other witnesses had previously indicated [T. 698], but he denied that he ever received a card from the motel where he registered [T. 699], and he denied ever having seen Government's Exhibit 7 [T. 700].

The defendant Gomez denied having any connection with any deals pertaining to narcotics, denied all conversations alleged to have been had with the narcotics agents, and denied all knowledge of any narcotics deals whatsoever [T. 743-777].

Gomez' denials of any participation in the narcotics deals were thoroughly impeached by Michael Gullon, a narcotics agent [T. 843-847].

At the conclusion of the trial the court found that the evidence was sufficient to justify the finding that Padilla joined the conspiracy on the 20th of February, 1957 [T. 1000] and that Padilla and Gomez were guilty as to count four [T. 1002]. Each defendant was thereupon taken into custody and bond in the sum of \$25,000 as to Gomez and Ramos and \$50,000 as to defendant Padilla was exonerated.

D. Statutes Involved.

Each count of the indictment was based upon Title 21, United States Code, Section 174, which provides in pertinent part as follows:

“Whoever fraudulently or knowingly imports or brings any narcotic drug into the United States or any Territory under its control or jurisdiction, contrary to law, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or sale of any such narcotic drug after being imported or brought in, knowing the same to have been imported or brought into the United States contrary to law, or conspires to commit any of such acts in violation of the laws of the United States, shall be imprisoned not less than 5 or more than 20 years.

. . .

“Whenever on trial for a violation of this section the defendant is shown to have or to have had possession of a narcotic drug, such possession shall be deemed sufficient evidence to authorize conviction unless the defendant explains the possession to the satisfaction of the jury.”

ARGUMENT.

I.

The Evidence Should Be Viewed Most Favorably to the Government.

This court should not weigh the evidence or pass on the credibility of witnesses. Therefore, the convictions should be sustained if there is substantial evidence, taking the view most favorable to the government, to support it.

United States v. Glasser, 315 U. S. 60, 80 (1942);
Dean v. United States, 246 F. 2d 335, 336-337
(8th Cir., 1957);

United States v. Brown, 236 F. 2d 403, 405 (2nd
Cir., 1956);

Arena v. United States, 226 F. 2d 227, 229 (9th
Cir., 1956), *cert. den.* 350 U. S. 954 (1956);

Schino v. United States, 209 F. 2d 67, 72 (9th Cir.,
1953), *cert. den.* 347 U. S. 937 (1954);

Woodward Laboratories v. United States, 198 F.
2d 995, 998 (9th Cir., 1952);

O'Leary v. United States, 160 F. 2d 333 (9th Cir.,
1947).

II.

The Credibility of the Witnesses Was Exclusively for the Trial Court to Determine.

Appellant cites numerous cases to support the premise that the evidence in this record merely casts suspicion upon him and that therefore his conviction cannot stand (Appellant's Op. Br. p. 9). The crux of his argument seems to be that the admitted presence of narcotics in his car at the time of his arrest was, in the words of the statute, "explained to the satisfaction of the jury" by the testimony of himself and his codefendants (*id.*, p. 14).

This argument ignores the very relevant question of credibility, and the record as a whole establishes that the credibility of appellant and each of his codefendants was seriously in question. Upon one very important and relevant matter, Government's Exhibit 7, which circumstantially tied appellant to Ramos by showing that appellant had been a guest in the *same motel* in Orange, California, as had Ramos, appellant was thoroughly impeached [T. 700, 924-925].

The rest of his testimony concerning the business of buying the truck, the withdrawal of the funds from the bank for that purported purpose several months in advance of the trip to the United States, the "5 or 10 minutes" that appellant admitted he had spent looking for the truck, all accumulate to make the testimony of appellant in every material respect a mass of improbabilities and contradictions.

That the question of credibility of the various witnesses is exclusively with the trial court needs no citation of authority. He was entitled to conclude that a witness was telling the truth as to one point, was mistaken as to another, but was truthful as to a third.

Elwert v. United States, 231 F. 2d 928, 934 (9th Cir., 1956).

Appellant who had been impeached could properly be entirely disbelieved.

Henry v. United States, 273 Fed. 330, 338 (C. A. D. C. 1921);

8 Cyc. Fed. Proc., 176, Sec. 26, 149.

Consequently, the question of the guilt or innocence of appellant was properly decided by the trial court without

particular reference to appellant's "explanation" for the presence of the narcotics in his automobile.

The same rules for testing the credibility of the witnesses apply to appellant's codefendants. The record discloses ample reasons for disbelieving their testimony. Gomez was impeached regarding his version of a conversation that was had in Agent Cantu's automobile [T. 843-847]. Ramos' testimony regarding the circumstances in which he supposedly threw his jacket, with 25 ounces of heroin in the pockets valued at about \$14,000 to \$16,000 into the back seat of appellant's Buick, supposing that this car was owned by Gomez was, on its face, incredible, improbable, and portions of the testimony were contradictory. The following partial quotation from the record will illustrate:

"The Court: You threw your coat in the back end of the car through the open window?

The Witness: Yes.

The Court: In the coat was three packages of heroin?

The Witness: Yes.

The Court: Without closing the window or locking the car, and you walked away?

The Witness: Yes.

The Court: And you didn't watch the car or your coat or the heroin?

The Witness: No.

The Court: You brought this heroin up to Anaheim to sell, did you not?

The Witness: Yes.

The Court: And how much were you going to get for it?

The Witness: From \$14,000 to \$16,000.

The Court: And you put the heroin in the back end, on the back seat of the car in your coat worth this much money and walked away and didn't watch it?

The Witness: Yes.

The Court: Did anybody else watch it for you?

The Witness: Not watch it, but those who had brought the car were eating and the car was in front of them, and what I had told them to take care of was my coat.

The Court: Did Isaac say he would watch your coat?

The Witness: Yes.

The Court: Did you tell him what was in your coat?

The Witness: No.

The Court: All right."

And further:

"The Witness: Yes. What I said is that I asked Mr. Gomez if he had brought a car and he told me that was a car that was outside, *but he didn't specify to me who had driven it or who had brought it.*

The Court: Did he point the car out to you?

The Witness: Yes. It could be seen.

The Court: *Did he say it was his car?*

The Witness: *Yes.*"

Based upon the foregoing testimony, it is hardly to be wondered that the trial court rejected appellant's explanation concerning the presence of the heroin in his automobile. In view of this testimony, having regard for the rules governing credibility of the witness, the trial court was free to draw such reasonable inferences as appeared from the evidence and to make such conclusions as were warranted therefrom. This court should likewise consider

all of the inferences which reasonably arise from the evidence in the aspect most favorable to supporting the judgment and findings of the court below.

III.

Appellant's Waiver of Trial by Jury Conferred Jurisdiction on the Trial Court to Try His Case and to Apply and Consider All Presumptions Arising From the Evidence and the Law.

Appellant contends that notwithstanding his waiver of a jury trial the court erred in accepting that waiver because of the use of the word "jury" in the presumption set out in Title 21, United States Code, Section 174 (Appellant's Op. Br. p. 18). He makes no pretense that any objection on this issue was ever interposed at the time of trial. He also concedes (Appellant's Op. Br. p. 19) that the statutory presumption which arises from the unexplained possession of narcotics is "only a rule of evidence."

Appellant further suggests that he doubts the judge had jurisdiction to hear the issue under the statutory presumption because of the "mandatory provisions of the statute." It appears however that he has misapplied the operation of the word "mandatory." As used in the statutory presumption the word applies to the *defendant* and not to the judge, for, once the possession of heroin has been proved this "*shall* be deemed sufficient evidence to authorize conviction" unless the defendant comes forward with a satisfactory explanation.

The presumption concerns itself solely with procedure. It deals exclusively with a rule of evidence. It makes proof of one fact *prima facie* evidence of a related fact.

Valasquez v. United States, 244 F. 2d 416, 418 (C. A. 10th, 1957).

The Court: And you put the heroin in the back end, on the back seat of the car in your coat worth this much money and walked away and didn't watch it?

The Witness: Yes.

The Court: Did anybody else watch it for you?

The Witness: Not watch it, but those who had brought the car were eating and the car was in front of them, and what I had told them to take care of was my coat.

The Court: Did Isaac say he would watch your coat?

The Witness: Yes.

The Court: Did you tell him what was in your coat?

The Witness: No.

The Court: All right."

And further:

"The Witness: Yes. What I said is that I asked Mr. Gomez if he had brought a car and he told me that was a car that was outside, *but he didn't specify to me who had driven it or who had brought it.*

The Court: Did he point the car out to you?

The Witness: Yes. It could be seen.

The Court: *Did he say it was his car?*

The Witness: *Yes.*"

Based upon the foregoing testimony, it is hardly to be wondered that the trial court rejected appellant's explanation concerning the presence of the heroin in his automobile. In view of this testimony, having regard for the rules governing credibility of the witness, the trial court was free to draw such reasonable inferences as appeared from the evidence and to make such conclusions as were warranted therefrom. This court should likewise consider

all of the inferences which reasonably arise from the evidence in the aspect most favorable to supporting the judgment and findings of the court below.

III.

Appellant's Waiver of Trial by Jury Conferred Jurisdiction on the Trial Court to Try His Case and to Apply and Consider All Presumptions Arising From the Evidence and the Law.

Appellant contends that notwithstanding his waiver of a jury trial the court erred in accepting that waiver because of the use of the word "jury" in the presumption set out in Title 21, United States Code, Section 174 (Appellant's Op. Br. p. 18). He makes no pretense that any objection on this issue was ever interposed at the time of trial. He also concedes (Appellant's Op. Br. p. 19) that the statutory presumption which arises from the unexplained possession of narcotics is "only a rule of evidence."

Appellant further suggests that he doubts the judge had jurisdiction to hear the issue under the statutory presumption because of the "mandatory provisions of the statute." It appears however that he has misapplied the operation of the word "mandatory." As used in the statutory presumption the word applies to the *defendant* and not to the judge, for, once the possession of heroin has been proved this "*shall* be deemed sufficient evidence to authorize conviction" unless the defendant comes forward with a satisfactory explanation.

The presumption concerns itself solely with procedure. It deals exclusively with a rule of evidence. It makes proof of one fact *prima facie* evidence of a related fact.

Valasquez v. United States, 244 F. 2d 416, 418 (C. A. 10th, 1957).

In a non-jury trial the judge is the trier of facts and it is his duty to weigh the evidence in the same manner as a jury would, including all presumptions.

89 C. J. S. 383, Sec. 593.

Thus, it is not surprising that in the only reported case wherein the question of the interchangeability of the word "judge" for the word "jury" has come up the Court of Appeals for the State of California concluded that the statutory word "jury" referred to the finder of fact whether that be the jury, or the judge.

Nathanson v. Murphy, 132 Cal. App. 2d 363, 373,
282 P. 2d 174, 181.

In any case, the presence of heroin in appellant's car, when taken with other evidence in the case, sufficiently established appellant's guilt without reference to the statutory presumption. So the error of the court, if any, in failing to force a jury upon appellant at the time he waived trial by jury, was non-prejudicial.

IV.

The Evidence Sufficiently Established the Guilt of Appellant Under Count Four of Receiving, Transporting, Concealing and Facilitating 25 Ounces of Heroin.

Since the trial court could not believe the explanation given by appellant and his codefendants for presence of 25 ounces of heroin found in appellant's car at the border, it was free to draw such inferences from the evidence, aside from the explanation, as were warranted.

The fact that appellant had these narcotics in his possession at the time of his arrest constituted sufficient evidence to authorize conviction.

Title 21, U. S. C., Sec. 174.

The fact of possession is proved by establishing that the defendant had dominion and control over the narcotics and had knowledge of their presence. Proof that one had exclusive control and dominion over property on or in which contraband narcotics are found is a potent circumstance tending to prove knowledge of the presence of such narcotics, and control thereof.

People v. Antista, 129 Cal. App. 2d 47, 276 P. 2d 177;

United States v. Pinna, 229 F. 2d 216, 218 (7th Cir.);

Evans v. United States, 257 F. 2d 121, 128 (9th Cir.).

Here it is clear that the appellant had complete dominion and control over the narcotics which were found in his car. Their presence in the car provides an inference that he knew of their presence; the circumstances under which the jacket was placed in the vehicle make it highly probable that it was placed there either at his direction, or at least with his consent; the presence of Government's Exhibit 7, the card from Highway 101 Motel, in appellant's glove compartment inextricably links him to Ramos to the extent that it must be concluded appellant at least had knowledge of Ramos' activities; and finally, the fact that appellant used an admittedly false name at the border at the time of his arrest tends to show some guilty knowledge on his part.

Appellant's use of a false name at the time of his arrest tended to indicate guilty knowledge on his part.

22 C. J. S. 962, Sec. 627.

Taking into account all of the evidence, the inferences and presumptions to be drawn therefrom, it is submitted that appellant's guilt was established by substantial evidence and should be sustained.

V.

The Evidence Sufficiently Established the Guilt of Appellant Under Count Five of Conspiracy to Import and Sell Narcotics.

The nature of the unlawful venture, being, as it is, usually covertly planned, allows great latitude in drawing proper inferences from direct and circumstantial evidence to show the existence of the conspiracy. It is well established that:

“participation in a criminal conspiracy need not be proved by direct evidence; a common purpose and plan may be inferred from a development and collocation of circumstances.”

Glasser v. United States, 315 U. S. 60, 80.

To the same effect:

United States v. Manton, 107 F. 2d 834, 839 (C. A. 2d);

Curley v. United States, 160 F. 2d 229, 236 (C. A. D. C.);

Marino v. United States, 91 F. 2d 691 (C. A. 9th), cert. den. 302 U. S. 764.

Furthermore the conspiracy is not to be dismembered and viewed in its separate parts, but only by looking at the evidence as a whole. As has been stated:

“The character and effect of a conspiracy are not to be judged by dismembering it and viewing it in its separate parts, but by looking at it as a whole . . . ; and in a case like the one before us the duty of the jury was to look at the whole picture and not merely at the individual figures in it.”

Carlson, et al. v. United States, 187 F. 2d 366, 371 (10th Cir.).

A conspiracy is a secret, furtive crime and by its very nature, must usually be proved by circumstantial evidence.

Ryan v. United States, 99 F. 2d 864 (8th Cir.);

Rose v. United States, 149 F. 2d 755 (9th Cir.).

This is true because ordinarily only the results of a conspiracy, and not the private plotting and promoting are observed.

Rose v. United States, *supra*, page 759.

The step between innocent knowledge and guilty intent and agreement may be, and is usually shown by, prolonged and interested cooperation, indicating a "stake in the venture."

Van Huss v. United States, 197 F. 2d 120, 121 (10th Cir.).

It is, of course, elementary that every act or declaration of each member of a conspiracy in furtherance thereof, and while the conspiracy is in operation, is considered the act and declaration of each member of that conspiracy.

Barnett v. United States, 171 F. 2d 721 (9th Cir., 1949).

The *corpus delicti*, an unlawful agreement to deal in heroin, may be proved by circumstantial evidence.

United States v. DiOrio, 150 F. 2d 938 (3rd Cir., 1940);

Demmick v. United States, 116 Fed. 825 (9th Cir.).

Once the *corpus delicti* has been proved, then it is proper to admit evidence or declarations of the co-conspirators.

Sandez v. United States, 239 F. 2d 239, 244 (9th Cir., 1956).

The evidence is not consistent with any other finding except guilt when it is viewed as a whole. Appellant, who came to this country on a "business" visit, coincidentally meets Ramos, a countryman, in Anaheim. Ramos is supposedly on a separate "business" visit to this country. Ramos and Gomez are observed speaking together in the presence of appellant on several occasions. Immediately after each conversation Ramos' actions vary, depending upon what he was instructed to do on each occasion. These several conversations, and Ramos' actions throughout the day, are only consistent with the conclusion that there is a common purpose, rather than that the parties met coincidentally while on separate business. Finally, appellant is found to have in his possession at the time of his arrest, a card showing that he had been a guest at the Highway 101 Motel. This is the same motel from which Ramos had negotiated throughout the day in an attempt to complete the sale of the total of 35 ounces of narcotics that was involved. Ten ounces of the narcotics are in Ramos' possession at the time of his arrest; 25 ounces, in packets of 10, 10, and 5 ounces, respectively, are found in appellant's automobile at the time of appellant's arrest, in just the condition that Ramos said they would be, in one of his frequent declarations. The trial court has concluded that the declarations, and not the testimony of the parties, were truthful; that the development and collocations of circumstances established a common purpose or plan; and that this was for the sale of 35 ounces of heroin.

Conclusion.

1. The evidence was sufficient to convict appellant on Count Four.
2. The evidence was sufficient to convict appellant on Count Five.
3. The judgment below should be affirmed.

Respectfully submitted,

LAUGHLIN E. WATERS,
United States Attorney,

ROBERT JOHN JENSEN,
Assistant U. S. Attorney,
Chief, Criminal Division,

GEORGE W. KELL,
Assistant U. S. Attorney,
Attorneys for Appellee.

No. 16163 ✓

United States
Court of Appeals
for the Ninth Circuit

UNITED STATES OF AMERICA,
Appellant,
vs.
CALIFORNIA BANK, Appellee.

Transcript of Record

Appeal from the United States District Court for the
Southern District of California,
Central Division

FILED

NOV 21 1958

PAUL P. O'BRIEN, CLERK

No. 16163

United States
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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief Civil Division,

BURTON C. JACOBSON,
Assistant U. S. Attorney,
600 Federal Building,
Los Angeles 12, California.

For Appellee:

SWANWICK, DONNELLY & PROUDFIT,
DONALD O. WELTON,
629 So. Spring Street,
Los Angeles 14, California. [1]

* Page numbers appearing at bottom of page of Original Transcript of Record.

United States District Court, Southern District
of California, Central Division

Civil No. 18656-WB

UNITED STATES OF AMERICA,
Plaintiff,
vs.

CALIFORNIA BANK OF LOS ANGELES, a
Corporation, Defendant.

COMPLAINT FOR MONEY ON FORGED
CHECKS (TREASURY)

Comes now the United States of America, plaintiff above named, and for cause of action against the defendant above named complains and alleges as follows:

I.

That this is a suit of a civil nature, commenced by the United States of America, and this Court has jurisdiction of this action by virtue of the provisions of Title 28, § 1345, United States Code.

II.

That during all times herein mentioned United States of America was and now is a corporation sovereign. [2]

That the defendant, California Bank of Los Angeles, at all times herein mentioned was and now

is a corporation, transacting business in the County of Los Angeles, State of California.

IV.

That all of the transactions herein involved occurred in the County of Los Angeles, in the State and Southern District of California, and within the jurisdiction of this Court.

V.

That the defendant above named is indebted to the plaintiff in the sums hereinafter set forth, with interest thereon at the rate of six per cent per annum from the dates hereinafter set forth opposite said sums:

\$119.70	4-29-49
170.60	4-28-49
223.30	4-23-49

upon a written contract of guarantee and for money paid by mistake under the following circumstances:

VI.

That on the dates hereinafter set forth checks were drawn on the Treasurer of the United States by H. Rogers, Regional Disbursing Officer, Symbol 415, U. S. Treasury Department, payable to the order of the payees hereinafter listed, photostatic copies of which checks are annexed hereto and marked "Exhibit A" and made a part hereof by reference; that the following list sets forth the check number, the date of issuance, the amount, symbol and name of payee: [3]

Check No.	Date	Amount	Symbol	Payee
11,098.392	3-16-49	\$119.70	415	Lonnie D. Ashford
11,098.440	3-16-49	170.60	415	Raymond P. Cortez
11,050,701	3-11-49	223.30	415	Paul S. Crawford

VII.

That on the dates listed in paragraph V above the defendant, California Bank of Los Angeles, a corporation, presented said checks to the plaintiff, through the Los Angeles Branch of the Federal Reserve Bank of San Francisco, fiscal agent of the Treasurer of the United States, with the names of the payees listed in paragraph VI above written upon the backs thereof, and with the endorsements thereon of the defendant, California Bank of Los Angeles, a corporation, in the manner and words and figures as shown on the reverse side of said "Exhibit A", said defendant's aforesaid endorsement, including the words "Prior Endorsements Guaranteed".

VIII.

That thereupon the plaintiff, through the said Federal Reserve Bank of San Francisco, relying upon the said guarantees by the defendant, California Bank of Los Angeles, a corporation, that the names written upon the backs of said checks were the genuine signatures and endorsements of the payees, and relying upon the representation by the said defendant that it had valid title to said checks, paid the amounts thereof to the defendant, California Bank of Los Angeles, a corporation.

IX.

That the said names of the payees set forth in paragraph VI above were the names of fictitious and nonexistent persons; that the plaintiff had no knowledge of the foregoing either at the time the aforesaid checks were issued or at the time plaintiff paid the amount thereof to the defendant, as aforesaid.

X.

That the names of the said payees endorsed upon the aforesaid checks were forged and had been wrongfully and fraudulently written upon the same by persons other than the named payees who were fictitious and nonexistent persons, as aforesaid. [4]

XI.

That the payments of said checks paid by the plaintiff to the defendant as described in paragraph VIII of this complaint were made under a mistake of fact and without knowledge that the signatures of the said payees thereon had been forged upon the back of said checks, and that the said payees were fictitious and nonexistent persons.

XII.

That the names of the payees written upon the backs of said checks were not the genuine signatures and endorsements of payees named upon the face of said checks, nor did said defendant receive said checks from the payees thereon named; in truth and in fact the purported endorsements were forgeries and the defendant, California Bank of

Los Angeles, a corporation, when it presented said checks and received payment of the amounts thereof, as aforesaid, had no valid or legal title to said checks.

XIII.

That upon discovery of the aforesaid forgeries and the want of title of the defendant, California Bank of Los Angeles, a corporation, the plaintiff, through the said Federal Reserve Bank of San Francisco, gave notice thereof to the said defendant and demanded the return of the sums paid to said defendant upon said checks, but the said defendant refused to repay to the plaintiff the said sums or any part thereof.

XIV.

That prior to the commencement of this action, the plaintiff demanded from said defendant the sums above mentioned, but the said defendant has failed, neglected and refused, and still fails, neglects and refuses, to repay to the plaintiff the said sums or any part thereof. The whole thereof in the amounts listed in paragraphs V and VI, together with interest thereon at the rate [5] of six per cent per annum from the dates set forth in paragraph V of this complaint, is now due, owing and unpaid to the plaintiff from the defendant.

Wherefore, plaintiff prays judgment against the defendant, California Bank of Los Angeles, a corporation, in the sum of \$513.60, together with interest thereon at the rate of six per cent per annum,

and for its costs incurred herein, and for such other and further relief as to this Honorable Court may seem meet, just and proper in the premises.

LAUGHLIN E. WATERS,
United States Attorney,

MAX F. DEUTZ,
Assistant U. S. Attorney, Chief
of Civil Division,

EDWIN H. ARMSTRONG,
Assistant U. S. Attorney,

/s/ EDWIN H. ARMSTRONG,
Attorneys for Plaintiff. [6]

LOS ANGELES, CALIF.,

11,098,392

2 Treasurer of the United States

THROUGH FEDERAL RESERVE BANK OF SAN FRANCISCO

11-37
000

MAR 16 1949

PAY \$119 DOLLARS 70 CTS

\$119.70

TO THE

ORDER OF

LONNIE D ASHFORD
356 W 52ND PL
LOS ANGELES CALIF

PAID

25 MAR 1949

138 REGIONAL DISBURSING OFFICER

DO NOT FOLD, SPINDLE OR MUTILATE

KNOW YOUR ENDORSER -- REQUIRE IDENTIFICATION

415

The payee should endorse below in ink or indelible pencil.

If the endorsement is made by mark (X) it must be witnessed by two persons who can write, giving their places of residence in full.

It is suggested that this check be promptly negotiated.

Lonnie D. Ashford
Harold R. Welling
1943

PAY TO THE ORDER OF

California Bank
KUNIN FURNITURE CO.

MAR 16 1949

MAR 16 1949

[Title of District Court and Cause.]

ANSWER

Comes now defendant California Bank, sued herein as California Bank of Los Angeles, and answers plaintiff's Complaint as follows:

I.

Denies that the name of this defendant is "California Bank of Los Angeles", and in this connection alleges that the true name of this defendant is "California Bank".

II.

Denies the allegations of paragraph V of plaintiff's Complaint. [8]

III.

Denies that plaintiff paid said checks in reliance upon this defendant's guarantee of the endorsements.

IV.

Admits that the names of the payees in said checks were fictitious and not the names of existing persons, but defendant is without knowledge or information sufficient to form a belief as to the truth of the allegation that plaintiff had no knowledge thereof at the time the checks were issued and at the time they were paid.

V.

Denies the allegations of paragraphs X, XI, and XII of plaintiff's Complaint.

VI.

Admits that on or about October 18, 1949, plaintiff gave notice to defendant and demanded the return of the amount of said checks, but denies the allegation that said checks were forged and denies the allegation that this defendant did not have title thereto.

VII.

Admits that prior to the commencement of this action, plaintiff demanded from defendant the amounts listed in paragraphs V and VI of plaintiff's Complaint and that defendant refused to pay said amounts or any parts thereof, but denies the remaining allegations of paragraph XIV of plaintiff's Complaint.

As an Affirmative Defense to Plaintiff's Complaint, Defendant Alleges: [9]

I.

Defendant is informed and believes and, upon such information and belief, alleges that prior to the issuance of said checks one or more persons unknown to both plaintiff and defendant, but using the names Lonnie D. Ashford, Raymond P. Cortez, and Paul S. Crawford, filed with plaintiff income tax returns in each of said names showing overpayments of income tax as follows:

Name Inserted in Return	Amount Claimed as Overpayment
Lonnie D. Ashford	\$119.70
Raymond P. Cortez	170.60
Paul S. Crawford	223.30

II.

Defendant is informed and believes and, upon such information and belief, alleges that upon receipt of said returns and without first checking its records to ascertain whether the taxes claimed in said returns to have been paid to plaintiff had in fact been paid, and relying upon said returns which were false and fraudulent, plaintiff issued the three checks described in its Complaint.

III.

Defendant is informed and believes and, upon such information and belief, alleges that after said checks were issued plaintiff caused the same to be mailed to the respective payees at the addresses of said payees as set out in said returns.

IV.

Defendant is informed and believes and, upon such information and belief, alleges that each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was issued. [10]

V.

Defendant is informed and believes and, upon such information and belief, alleges that each of the checks described in plaintiff's Complaint was endorsed by the person plaintiff intended to be the payee thereof, and that none of the endorsements on said checks are forgeries.

Wherefore, defendant prays that plaintiff take

tiff issued the three checks described in its Complaint.

VI.

After said checks were issued, plaintiff caused the same to be mailed to the respective payees at the addresses of said payees as set out in said returns.

VII.

Each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was issued. Said checks were then negotiated through various channels and in the course of business were deposited in defendant bank; in due course the bank endorsed said checks "All prior endorsements guaranteed" and presented them for payment, and they were paid by the government's fiscal agent.

VIII.

Upon discovery that a fraud had been committed, on or about October 18, 1949, plaintiff gave notice to defendant and demanded the return of the amount of said checks. Defendant refused to comply with such demand.

IX.

There are no pertinent facts other than those above mentioned, pertaining to the issuance, negotiation and payment of [15] the checks involved herein except facts admitted in the pleadings, and both plaintiff and defendant agree that a trial as to the facts is not necessary and that the Court may consider this matter as if the same had been

tried and all of the above-stated facts had been found to be true.

X.

It is agreed that this cause may be submitted to the Court for decision upon this stipulation.

Dated: This 12th day of May, 1958.

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Assistant U. S. Attorney,

/s/ BURTON C. JACOBSON,
Assistant U. S. Attorney,
Attorneys for Plaintiff.

SWANWICK, DONNELLY &
PROUDFIT,

/s/ By DONALD O. WELTON,
Attorneys for Defendant.

It is so ordered this 12th day of May, 1958.

/s/ WM. M. BYRNE,
United States District Judge. [16]

[Endorsed]: Filed May 12, 1958.

United States District Court, Southern District
of California, Central Division

Civil No. 18656-WB

UNITED STATES OF AMERICA,
Plaintiff,

vs.

CALIFORNIA BANK OF LOS ANGELES, a
corporation, Defendant.

FINDINGS OF FACT, CONCLUSIONS OF
LAW AND JUDGMENT

A stipulation admitting facts and consenting to the submission of this case for decision upon said stipulation was filed herein on May 12, 1958, and an order of submission was thereupon made, plaintiff appearing in the action by Laughlin E. Waters, United States Attorney, Richard A. Lavine and Burton C. Jacobson, Assistant United States Attorneys, and defendant appearing by Donald O. Welton of Swanwick, Donnelly & Proudfit, attorneys, and the Court having considered all of the pleadings and said stipulation of facts, and being fully advised in the premises, makes herein its Findings of Fact, Conclusions of Law and Judgment as follows:

Findings of Fact

1. This is a suit of a civil nature, commenced by [17] the United States of America, and this Court

has jurisdiction of this action by virtue of the provisions of Title 28, § 1345, United States Code.

2. During all times herein mentioned United States of America was and now is a corporation sovereign.

3. The true name of defendant is "California Bank" and it is a corporation organized under the laws of the State of California.

4. All of the transactions herein involved occurred in the County of Los Angeles, in the State and Southern District of California, and within the jurisdiction of this Court.

5. On the dates hereinafter set forth, the following checks were drawn on the Treasurer of the United States by H. Rogers, Regional Disbursing Officer, symbol 415, U. S. Treasury Department:

Check No.	Date	Amount	Symbol	Payee
11,098,392	3-16-49	\$119.70	415	Lonnie D. Ashford
11,098,440	3-16-49	170.60	415	Raymond P. Cortez
11,050,701	3-11-49	223.30	415	Paul S. Crawford

Photostatic copies of said checks are annexed to plaintiff's complaint.

6. Prior to the issuance of said checks, one or more persons unknown to both plaintiff and defendant, but using the names Lonnie D. Ashford, Raymond P. Cortez and Paul S. Crawford, filed with plaintiff income tax returns in each of said names showing overpayments of income tax as follows:

Name Inserted in Return	Amount Claimed as Overpayment
Lonnie D. Ashford	\$119.70
Raymond P. Cortez	170.60
Paul S. Crawford	223.30

7. Upon receipt of said returns and without first checking its records to ascertain whether the taxes claimed in said returns to have been paid to plaintiff had in fact been paid, and relying upon said returns which were false and fraudulent, plaintiff issued the three checks described in its Complaint on the dates set forth in paragraph 5 hereof, said checks being drawn on the Treasurer of the United States by H. Rogers, Regional Disbursing Officer, symbol 415, U. S. Treasury Department.

8. After said checks were issued, plaintiff caused the same to be mailed to the respective payees at the addresses of said payees as set out in said returns.

9. Each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was issued. Said checks were then negotiated through various channels and in the course of business were deposited in defendant bank; in due course the bank endorsed said checks "All prior endorsements guaranteed" and presented them for payment, and they were paid by the government's fiscal agent.

10. Upon discovery that a fraud had been committed, on or about October 18, 1949, plaintiff gave notice to defendant and demanded the return of the amount of said checks. Defendant refused to comply with such demand.

From the foregoing Findings of Fact the Court [19] makes the following Conclusions of Law:

Conclusions of Law

1. This Court has jurisdiction over the subject matter hereof and of the parties hereto pursuant to Title 28 United States Code, Sections 1345 and 1348.

2. The defendant bank is not liable to the plaintiff upon its guaranty of all prior endorsements as such prior endorsements were not forged endorsements as claimed by plaintiff.

3. The United States of America is therefore not entitled to judgment against the defendant bank as contended in the prayer of the Complaint, and the defendant is entitled to judgment in its favor and against the United States of America.

Judgment

In accordance with the foregoing Findings of Fact and Conclusions of Law, It is Ordered, Adjudged and Decreed:

1. That plaintiff, United States of America, take nothing by its said action, and that judgment be and the same is hereby entered in favor of defendant California Bank, a corporation, against plaintiff.

Dated at Los Angeles, California, this 11th day of June, 1958.

/s/ WM. M. BYRNE,

United States District Judge.

Approved as to form:

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief of Civil Division,
BURTON C. JACOBSON,
Assistant U. S. Attorney,
/s/ By BURTON C. JACOBSON,
Assistant U. S. Attorney. [21]

[Endorsed]: Filed and Entered June 12, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that the United States of America, the plaintiff above-named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the final judgment entered in this action on June 12, 1958.

Dated at Los Angeles, California, this 25th day of July, 1958.

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief, Civil Division,
/s/ BURTON C. JACOBSON,
Assistant U. S. Attorney,
Attorneys for Plaintiff. [22]

[Endorsed]: Filed July 25, 1958.

[Title of District Court and Cause.]

CERTIFICATE BY CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled matter:

A. The foregoing pages numbered 1 to 26, inclusive, containing the original:

Complaint.

Answer.

Stipulation admitting Facts and Order.

Findings of Fact, Conclusions of Law and Judgment.

Notice of Appeal.

Designation of Record on Appeal.

I further certify that my fee for preparing the foregoing record, amounting to \$1.60, has not been paid by appellant.

Dated: August 27, 1958.

JOHN A. CHILDRESS,

Clerk,

/s/ By WM. A. WHITE,

Deputy Clerk.

[Endorsed]: No. 16163. United States Court of Appeals for the Ninth Circuit. United States of America, Appellant, vs. California Bank, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division. Filed and Docketed: August 28, 1958.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for the
Ninth Circuit.

United States Court of Appeals
for the Ninth Circuit

CA No. 16163

UNITED STATES OF AMERICA,

Appellant,

vs.

CALIFORNIA BANK OF LOS ANGELES, a
corporation, Appellee.

APPELLANT'S STATEMENT OF POINTS ON
APPEAL AND DESIGNATION OF REC-
ORD TO BE PRINTED

The appellant hereby designates the following Points on Appeal in the above-entitled matter:

1. The district court erred in holding that defendant bank was not liable to the United States upon its guarantee or prior endorsements.

2. The district court erred in entering judgment for defendant bank.

Appellant Hereby Designates the following record to be printed in the above-entitled matter:

1. Complaint for money on forged checks (Treasury), filed August 25, 1955, including the check to the order of Lonnie D. Ashford which is part of Exhibit A to the complaint.

2. Answer, filed July 2, 1956.

3. Stipulation admitting facts and order, filed May 12, 1958.

4. Findings of fact, conclusions of law and judgment, filed June 12, 1958.

5. Notice of appeal.

Dated: This 3rd day of September, 1958.

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief, Civil Division,

/s/ BURTON C. JACOBSON,
Assistant U. S. Attorney,
Attorneys for Appellant.

Affidavit of Service by Mail Attached.

[Endorsed]: Filed September 10, 1958. Paul P. O'Brien, Clerk.

No. 16164

16165

United States
Court of Appeals
for the Ninth Circuit

UNITED STATES OF AMERICA,
Appellant,
vs.

BANK OF AMERICA NATIONAL TRUST
& SAVINGS ASSOCIATION, Appellee.

Transcript of Record

Appeal from the United States District Court for the
Southern District of California,
Central Division

FILED

NOV 21 1958

PAUL P. O'BRIEN, CLERK



No. 16164

United States
Court of Appeals
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UNITED STATES OF AMERICA,
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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in italic; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in italic the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief, Civil Division,

BURTON C. JACOBSON,
Assistant U. S. Attorney,
600 Federal Building,
Los Angeles 12, California.

For Appellee:

SAMUEL B. STEWART,
HUGO A. STEINMEYER,
GEORGE L. BECKWITH,

650 So. Spring Street,
Los Angeles 14, California. [1]*

* Page numbers appearing at bottom of page of Original Transcript of Record.

United States District Court, Southern District
of California, Central Division

Civil No. 1956-T

UNITED STATES OF AMERICA

Plaintiff

vs.

BANK OF AMERICA OF LOS ANGELES, &
National Trust and Savings Association,

Defendant.

COMPLAINT FOR MONEY ON FORGED
(CHECKS (TREASURY))

Comes now the United States of America, plaintiff above named, and for cause of action against the defendant above named complains and alleges as follows:

I.

That this is a suit of a civil nature commenced by the United States of America, and the Court has jurisdiction of this action by virtue of the provisions of Title 28, § 1345, United States Code.

II.

That during all times herein mentioned United States of America was and now is a corporation sovereign.

III.

That the defendant, Bank of America of Los Angeles, at [?] all times herein mentioned was and now is a national trust and savings association,

United States District Court, Southern District
of California, Central Division

Civil No. 18658-T

UNITED STATES OF AMERICA,

Plaintiff,

vs.

BANK OF AMERICA OF LOS ANGELES, a
National Trust and Savings Association,
Defendant.

COMPLAINT FOR MONEY ON FORGED
CHECKS (TREASURY)

Comes now the United States of America, plaintiff above named, and for cause of action against the defendant above named complains and alleges as follows:

I.

That this is a suit of a civil nature, commenced by the United States of America, and this Court has jurisdiction of this action by virtue of the provisions of Title 28, § 1345, United States Code.

II.

That during all times herein mentioned United States of America was and now is a corporation sovereign.

III.

That the defendant, Bank of America of Los Angeles, at [2] all times herein mentioned was and now is a national trust and savings association,

transacting business in the County of Los Angeles, State of California.

IV.

That all of the transactions herein involved occurred in the County of Los Angeles, in the State and Southern District of California, and within the jurisdiction of this Court.

V.

That the defendant above named is indebted to the plaintiff in the sums hereinafter set forth, with interest thereon at the rate of six per cent per annum from the dates hereinafter set forth opposite said sums:

\$158.26	4- 7-49	\$120.95	3-28-49
265.25	3-18-49	220.45	3-16-49
225.10	3-16-49	150.05	4-23-49
201.02	3-21-49		

upon a written contract of guarantee and for money paid by mistake under the following circumstances:

VI.

That on the dates hereinafter set forth checks were drawn on the 'Treasurer of the United States by A. H. Hoiland and H. Rogers, Regional Disbursing Officers, Symbols 412 and 415, respectively, U. S. Treasury Department, payable to the order of the payees hereinafter listed, photostatic copies of which checks are annexed hereto and marked "Exhibit A" and made a part hereof by reference; that the following list sets forth the check number,

the date of issuance, the amount, symbol and name of payee: [3]

Check No.	Date	Amount	Symbol	Payee
10,434,518	3-18-49	\$158.26	412	Jessie C. Cross
10,997,314	3- 7-49	265.25	415	Leonard J. Day
10,976,154	3- 4-49	225.10	415	Charles T. Elbert
11,046,795	3-10-49	201.02	415	Joseph R. Hubbard
11,115,264	3-16-49	120.95	415	Stephen K. Lannode
10,303,674	3- 4-49	220.45	412	John E. Lewis
10,259,475	3-22-49	150.05	415	L.G. & R.Y. Valentine

VII.

That on the dates listed in paragraph V above the defendant, Bank of America of Los Angeles, N.T.& S.A., presented said checks to the plaintiff, through the Los Angeles Branch of the Federal Reserve Bank of San Francisco, fiscal agent of the Treasurer of the United States, with the names of the payees listed in paragraph VI above written upon the backs thereof, and with the endorsements thereon of the defendant, Bank of America of Los Angeles, N.T.& S.A., in the manner and words and figures as shown on the reverse side of said "Exhibit A", said defendant's aforesaid endorsement, including the words "Prior Endorsements Guaranteed".

VIII.

That thereupon the plaintiff, through the said Federal Reserve Bank of San Francisco, relying upon the said guarantees by the defendant, Bank of America of Los Angeles, N.T.& S.A., that the names written upon the backs of said check were the genuine signatures and endorsements of the payees, and relying upon the representation by the

said defendant that it had valid title to said checks, paid the amounts thereof to the defendant, Bank of America of Los Angeles, N.T.& S.A.

IX.

That the said names of the payees set forth in paragraph VI above were the names of fictitious and nonexistent persons; that the plaintiff had no knowledge of the foregoing either at the time the aforesaid checks were issued or at the time plaintiff paid the amount thereof to the defendant, as aforesaid. [4]

X.

That the names of the said payees endorsed upon the aforesaid checks were forged and had been wrongfully and fraudulently written upon the same by persons other than the named payees who were fictitious and nonexistent persons, as aforesaid.

XI.

That the payments of said checks paid by the plaintiff to the defendant as described in paragraph VIII of this complaint were made under a mistake of fact and without knowledge that the signatures of the said payees thereon had been forged upon the back of said checks, and that the said payees were fictitious and nonexistent persons.

XII.

That the names of the payees written upon the backs of said checks were not the genuine signatures and endorsements of payees named upon the face of said checks, nor did said defendant receive

said checks from the payees thereon named; in truth and in fact the purported endorsements were forgeries and the defendant, Bank of America of Los Angeles, N.T.& S.A., when it presented said checks and received payment of the amounts thereof, as aforesaid, had no valid or legal title to said checks.

XIII.

That upon discovery of the aforesaid forgeries and the want of title of the defendant, Bank of America of Los Angeles, N.T.& S.A., the plaintiff, through the said Federal Reserve Bank of San Francisco, gave notice thereof to the said defendant and demanded the return of the sums paid to said defendant upon said checks, but the said defendant refused to repay to the plaintiff the said sums or any part thereof.

XIV.

That prior to the commencement of this action, the plaintiff demanded from said defendant the sums above mentioned, but the said defendant has failed, neglected and refused, and [5] still fails, neglects and refuses, to repay to the plaintiff the said sums or any part thereof. The whole thereof in the amounts listed in paragraphs V and VI, together with interest thereon at the rate of six per cent per annum from the dates set forth in paragraph V of this complaint, is now due, owing and unpaid to the plaintiff from the defendant.

Wherefore, plaintiff prays judgment against the defendant, Bank of America of Los Angeles, N.T.

& S.A., in the sum of \$1,341.08, together with interest thereon at the rate of six per cent per annum, and for its costs incurred herein, and for such other and further relief as to this Honorable Court may seem meet, just and proper in the premises.

LAUGHLIN E. WATERS,
United States Attorney,

MAX F. DEUTZ,
Assistant U. S. Attorney,
Chief of Civil Division,

EDWIN H. ARMSTRONG,
Assistant U. S. Attorney,

/s/ EDWIN H. ARMSTRONG,
Attorneys for Plaintiff. [6]

12

1-14 10,303,674

United States

THROUGH FEDERAL RESERVE BANK OF SAN FRANCISCO

PAY TO THE ORDER OF **JOHN E. LEWIS**
 503 E JEFFERSON BLVD
 LOS ANGELES 11 CALIF

WAR -4 1949

PAID \$220.45

16 MAR 9

176 FEDERAL DISBURSING OFFICE

DO NOT FOLD, SPINDLE OR MUTILATE
 KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

412

The payee should endorse below in ink or indelible pencil.

If the endorsement is made by mark (X) it must be witnessed by two persons who can write, giving their places of residence in full.

It is suggested that this check be promptly cashed.

John E. Lewis

Verity Mary Jennings

MAR 6 1949

OF AMERICA N.T. & S.A.

LOS ANGELES, CALIF.

[Title of District Court and Cause.]

ANSWER OF DEFENDANT

Comes Now the Defendant Bank of America National Trust and Savings Association and in answer to the complaint on file herein, admits, denies and alleges as follows:

I.

In answer to Paragraph V, defendant denies generally and specifically each and every allegation therein contained. Defendant denies that it is indebted to plaintiff in any sum whatsoever.

II.

Denies generally and specifically each and every allegation contained in Paragraph VIII except that defendant admits that the amounts of said checks were paid to this defendant. [10]

III.

That defendant is without information or belief sufficient to enable it to answer and on that ground, denies generally and specifically each and every allegation contained in Paragraphs IX, X, XI and XII.

IV.

Denies generally and specifically each and every allegation contained in Paragraph XIII except that defendant admits that plaintiff demanded the return of the sums paid and that defendant refuses to pay same.

V.

In answer to Paragraph XIV, defendant denies

that any sum whatsoever is due and owing from this defendant to plaintiff.

For a First Affirmative Defense, Defendant Alleges:

I.

That plaintiff is estopped to assert any claim against this defendant arising out of the payment by plaintiff to defendant of the amounts of said checks referred to in plaintiff's complaint.

II.

That the facts and circumstances out of which said estoppel arise are as follows:

III.

That the defendant is informed and believes and on such information and belief alleges that a person or persons whose name is or names are unknown to this defendant filed fraudulent and false tax returns or fraudulent and false claims for tax refunds in the fictitious names of the persons named as payees in the checks described in plaintiff's complaint. That thereafter the Treasury Department negligently and without any investigation whatsoever into the genuineness or bona fides of said [11] returns or claims issued said checks in the names of the payees as set forth in plaintiff's complaint which names were the same as those in the respective false returns or claims. That the negligence of the Treasury Department in issuing said checks was and is the proximate cause of any damage suffered by plaintiff.

For a Second Affirmative Defense, Defendant Alleges:

I.

That defendant is informed and believes and on such information and belief alleges that a person or persons whose name is or names are unknown to this defendant filed tax returns or claims for refunds under the aliases and in the names of various fictitious and non-existing persons as an impostor or impostors. That the names under which said returns or claims were filed are the names set forth in plaintiff's complaint as the names of the payees on the checks issued by the Treasury Department. That said checks referred to in plaintiff's complaint were issued by the Treasury Department to the person or persons filing said returns or claims under the aliases or fictitious names used by said person or persons filing said returns or claims and that the person or persons under the aliases or fictitious names as an impostor or impostors was or were the person or persons intended by the Treasury Department to receive said checks and that said person or persons did receive said checks and did endorse said checks under the aliases or fictitious names and that said endorsements are not forgeries.

For a Third Affirmative Defense, Defendant Alleges:

I.

That the facts alleged in the complaint on file herein occurred during the months of March and April, 1949. That the [12] complaint on file herein

was filed on the 25th day of August, 1955. That, therefore, said action and the whole thereof is barred by the provisions of Title 31, United States Codes, Section 129.

For a Fourth Affirmative Defense, Defendant Alleges:

I.

That said action and the whole thereof is barred by the laches of plaintiff.

Dated this 16th day of November, 1955.

HUGO A. STEINMEYER and

GEO. L. BECKWITH,

/s/ By GEO. L. BECKWITH,

Attorneys for Defendant. [13]

Affidavit of Service by Mail Attached. [14]

[Endorsed]: Filed November 16, 1955.

[Title of District Court and Cause.]

STIPULATION OF FACTS AND ORDER

It Is Hereby Stipulated, subject to approval of the Court, by and between Laughlin E. Waters, United States Attorney, Richard A. Lavine and Burton C. Jacobson, Assistant United States Attorneys, counsel for plaintiff, and Hugo A. Steinmeyer and Geo. L. Beckwith, attorneys for defendant, that the following facts are admitted:

I.

On the dates hereinafter set forth, the following

checks were drawn on the Treasurer of the United States by A. H. Hoiland and H. Rogers, Regional Disbursing Officers, symbols 412 and 415: [15]

Check No.	Date	Amount	Symbol	Payee
10,434,518	3-13-49	\$158.26	412	Jessie C. Cross
10,997,314	3- 7-49	265.25	415	Leonard J. Day
10,976,154	3- 4-49	225.10	415	Charles T. Elbert
11,046,795	3-10-49	201.02	415	Joseph R. Hubbard
11,115,264	3-16-49	120.95	415	Stephen K. Lannode
10,303,674	3- 4-49	220.45	412	John E. Lewis
10,259,475	3-22-49	150.05	415	L.G. & R.Y. Valentine

Photostatic copies of said checks are annexed to plaintiff's complaint and are by reference made a part hereof.

II.

Said checks were presented and paid as alleged in Paragraph VII of plaintiff's complaint.

III.

Prior to the issuance of said checks, one or more persons unknown to both plaintiff and defendant by using the names Jessie C. Cross, Leonard J. Day, Charles T. Elbert, Joseph R. Hubbard, Stephen K. Lannode, John E. Lewis and L. G. & R. Y. Valentine filed with plaintiff income tax returns in each of the said names showing overpayments of income tax as follows:

Name Inserted in Return	Amount Claimed as Overpayment
Jessie C. Cross	\$158.26
Leonard J. Day	265.25
Charles T. Elbert	225.10
Joseph R. Hubbard	201.02
Stephen K. Lannode	120.95
John E. Lewis	220.45
L. G. & R. Y. Valentine	150.05

IV.

Upon receipt of said returns and without first checking its records to ascertain whether the taxes claimed in said returns to have been paid to plaintiff had in fact been paid, and relying upon said returns which were false and fraudulent, plaintiff [16] issued the seven checks described in its complaint.

V.

After said checks were issued, plaintiff caused the same to be mailed to the respective payees at the addresses of said payees as set out in said returns.

VI.

Each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was issued. Said checks were then negotiated through various channels and in the course of business were deposited in defendant bank; in due course the bank endorsed said checks "All prior endorsements guaranteed" and presented them for payment, and they were paid by the government's fiscal agent.

VII.

Upon discovery that a fraud had been committed, on or about October 14, 1949, and January 11, 1950, plaintiff gave notice to defendant and demanded the return of the amount of said checks. Defendant refused to comply with such demand.

VIII.

There are no pertinent facts other than those

above mentioned, pertaining to the issuance, negotiation and payment of the checks involved herein except facts admitted in the pleadings, and both plaintiff and defendant agree that a trial as to the facts is not necessary and that the Court may consider this matter as if the same had been tried and all of the above-stated facts had been found to be true.

IX.

It is agreed that this cause may be submitted to the Court for decision upon this stipulation. [17]

Dated: This 12th day of May, 1958.

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Assistant U. S. Attorney,

/s/ BURTON C. JACOBSON,
Assistant U. S. Attorney,
Attorneys for Plaintiff.

HUGO A. STEINMEYER and
GEO. L. BECKWITH,

/s/ By GEO. L. BECKWITH,
Attorneys for Defendant.

It is so ordered this 12th day of May, 1958.

/s/ WM. M. BYRNE,
United States District Judge. [18]

[Endorsed]: Filed May 12, 1958.

United States District Court, Southern District
of California, Central Division

Civil No. 18658-WB

UNITED STATES OF AMERICA,

Plaintiff,

vs.

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION, a national
banking association, Defendant.

FINDINGS OF FACT, CONCLUSIONS OF
LAW AND JUDGMENT FOR THE DE-
FENDANT

The above-entitled matter came on regularly for pre-trial hearing on the 12th day of May, 1958, before The Honorable Wm. M. Byrne, Judge Presiding, and the plaintiff having appeared and been represented by counsel Laughlin E. Waters, United States Attorney, Richard A. Lavine, Assistant United States Attorney, and Burton C. Jacobson, Assistant United States Attorney, by Burton C. Jacobson, and the defendant having appeared and been represented by counsel Hugo A. Steinmeyer and Geo. L. Beckwith, by Geo. L. Beckwith, and the parties having, by and through their respective counsel, in writing, stipulated to the facts and said stipulation of the facts having been filed in and made a part of the record in the above-entitled matter, and the matter having been submitted with-

out further trial, the Court now, therefore, makes the following findings of fact: [19]

I.

On the dates hereinafter set forth, the following checks were drawn on the Treasurer of the United States by A. H. Hoiland and H. Rogers, Regional Disbursing Officers, symbols 412 and 415:

Check No.	Date	Amount	Symbol	Payee
10,434,518	3-18-49	\$158.26	412	Jessie C. Cross
10,997,314	3- 7-49	265.25	415	Leonard J. Day
10,976,154	3- 4-49	225.10	415	Charles T. Elbert
11,046,795	3-10-49	201.02	415	Joseph R. Hubbard
11,115,264	3-16-49	120.95	415	Stephen K. Lannode
10,303,674	3- 4-49	220.45	412	John E. Lewis
10,259,475	3-22-49	150.05	415	L.G. & R.Y. Valentine

II.

That on the dates listed in Paragraph I above, the defendant Bank of America National Trust and Savings Association presented said checks to the plaintiff through the Los Angeles Branch of the Federal Reserve Bank of San Francisco, fiscal agent of the Treasurer of the United States, with the names of the payees listed in Paragraph I above written upon the backs thereof and with the endorsements thereon of the defendant Bank of America National Trust and Savings Association, said defendant's endorsement including the words "Prior endorsements guaranteed."

III.

Prior to the issuance of said checks, one or more persons unknown to both plaintiff and defendant,

by using the names Jessie C. Cross, Leonard J. Day, Charles T. Elbert, Joseph R. Hubbard, Stephen K. Lannode, John E. Lewis and L. G. & R. Y. Valentine, filed with plaintiff income tax returns in each of the said names showing overpayments of income tax as follows: [20]

Name Inserted in Return	Amount Claimed as Overpayment
Jessie C. Cross	\$158.26
Leonard J. Day	265.25
Charles T. Elbert	225.10
Joseph R. Hubbard	201.02
Stephen K. Lannode	120.95
John E. Lewis	220.45
L. G. & R. Y. Valentine	150.05

IV.

Upon receipt of said returns and without first checking its records to ascertain whether the taxes claimed in said returns to have been paid to plaintiff had in fact been paid, and relying upon said returns which were false and fraudulent, plaintiff issued the seven checks described in its complaint.

V.

After said checks were issued, plaintiff caused the same to be mailed to the respective payees at the addresses of said payees as set out in said returns.

VI.

Each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was issued. Said checks were then negotiated through various channels and in the course of business were deposited

in defendant bank; in due course the bank endorsed said checks "All prior endorsements guaranteed" and presented them for payment, and they were paid by the government's fiscal agent.

VII.

Upon discovery that a fraud had been committed, on or about October 14, 1949, and January 11, 1950, plaintiff gave notice to defendant and demanded the return of the amount of said checks. Defendant refused to comply with such demand.

From the foregoing findings of fact, the Court makes the following conclusions of law:

I.

That the doctrine of the "Impostor Rule" is applicable in this case and the endorsements of the payees' names on said checks are not forgeries and that the plaintiff United States of America is not entitled to judgment and judgment should be entered for the defendant Bank of America National Trust and Savings Association.

In accordance with the foregoing findings of fact and conclusions of law, It Is Hereby Ordered, Adjudged and Decreed that judgment be entered for the defendant Bank of America National Trust and Savings Association.

It is so ordered.

Dated this 3rd day of June, 1958.

/s/ WM. M. BYRNE,
Judge.

Approved as to form.

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Assistant U. S. Attorney,
BURTON C. JACOBSON,
Assistant U. S. Attorney,
/s/ By BURTON C. JACOBSON.

Dated this 2nd day of June, 1958. [22]

[Endorsed]: Filed and Entered June 3, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that the United States of America, the plaintiff above-named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the final judgment entered in this action on June 3, 1958.

Dated at Los Angeles, California, this 25th day of July, 1958.

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief, Civil Division,
/s/ BURTON C. JACOBSON,
Assistant U. S. Attorney,
Attorneys for Plaintiff. [23]

Affidavit of Service by Mail Attached. [24]

[Endorsed]: Filed July 25, 1958.

[Title of District Court and Cause.]

CERTIFICATE BY CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled matter:

A. The foregoing pages numbered 1 to 27, inclusive, containing the original:

Complaint.

Answer.

Stipulation of Facts and Order.

Findings of Fact, Conclusions of Law and Judgment.

Notice of Appeal.

Designation of Record on Appeal.

I further certify that my fee for preparing the foregoing record, amounting to \$1.60, has not been paid by appellant.

Dated: August 27, 1958.

[Seal] JOHN A. CHILDRESS,

Clerk,

/s/ By WM. A. WHITE,

Deputy Clerk.

[Endorsed]: No. 16164. United States Court of Appeals for the Ninth Circuit. United States of America, Appellant, vs. Bank of America National Trust & Savings Association, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed and Docketed: August 28, 1958.

/s/ PAUL P. O'BRIEN,

Clerk of the United States Court of Appeals for the Ninth Circuit.

United States Court of Appeals
for the Ninth Circuit

CA No. 16164

UNITED STATES OF AMERICA,

Appellant,

vs.

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION, a national
banking association, Appellee.

APPELLANT'S STATEMENT OF POINTS ON
APPEAL AND DESIGNATION OF REC-
ORD TO BE PRINTED

The appellant hereby designates the following
Points on Appeal in the above-entitled matter:

1. The district court erred in holding that de-

defendant bank was not liable to the United States upon its guarantee of prior endorsements.

2. The district court erred in entering judgment for defendant bank.

3. The district court erred in holding that the "impostor rule" is applicable to the facts of this case.

Appellant hereby designates the following record to be printed in the above-entitled matter:

1. Complaint for money on forged checks (Treasury) filed August 25, 1955, including the check to the order of John E. Lewis which is part of Exhibit A to the complaint.

2. Answer of defendant, filed November 16, 1955.

3. Stipulation admitting facts and order, filed May 12, 1958.

4. Findings of fact, conclusions of law and judgment, filed June 3, 1958.

5. Notice of appeal, filed July 25, 1958.

Dated: This 8th day of September, 1958.

LAUGHLIN E. WATERS,

United States Attorney,

RICHARD A. LAVINE,

Assistant U. S. Attorney,

Chief, Civil Division.

/s/ BURTON C. JACOBSON,

Assistant U. S. Attorney,

Attorneys for Appellant.

Affidavit of Service by Mail Attached.

[Endorsed]: Filed September 10, 1958. Paul P. O'Brien, Clerk.

No. 16165 ✓

United States
Court of Appeals
for the Ninth Circuit

UNITED STATES OF AMERICA, Appellant,

vs.

SECURITY-FIRST NATIONAL BANK,
Appellee.

Transcript of Record

Appeal from the United States District Court for the
Southern District of California,
Central Division

FILED

NOV 21 1958

PAUL P. O'BRIEN, CLERK

No. 16165

United States
Court of Appeals
for the Ninth Circuit

UNITED STATES OF AMERICA, Appellant,

vs.

SECURITY-FIRST NATIONAL BANK,
Appellee.

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Appeal from the United States District Court for the
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NAMES AND ADDRESSES OF ATTORNEYS

For Appellant:

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief, Civil Division,

BURTON C. JACOBSON,
Assistant U. S. Attorney,
600 Federal Building,
Los Angeles 12, California.

For Appellee:

FARRAND, FISHER & FARRAND,
ROSS C. FISHER,
KNOX FARRAND,
STEPHEN M. FARRAND,

215 West 6th Street,
Los Angeles 14, California. [1]*

* Page numbers appearing at bottom of page of Original Transcript of Record.

United States District Court, Southern District
of California, Central Division

Civil No. 18659-HW

UNITED STATES OF AMERICA,
Plaintiff,
vs.

SECURITY-FIRST NATIONAL BANK OF
LOS ANGELES, a National Banking Association,
Defendant.

COMPLAINT FOR MONEY ON FORGED
CHECKS (TREASURY)

Comes now the United States of America, plaintiff above named, and for cause of action against the defendant above named complains and alleges as follows:

I.

That this is a suit of a civil nature, commenced by the United States of America, and this Court has jurisdiction of this action by virtue of the provisions of Title 28, § 1345, United States Code.

II.

That during all times herein mentioned United States of America was and now is a corporation sovereign.

III.

That the defendant, Security - First National Bank of [2] Los Angeles, at all times herein mentioned was and now is a national banking association.

tion, transacting business in the County of Los Angeles, State of California.

IV.

That all of the transactions herein involved occurred in the County of Los Angeles, in the State and Southern District of California, and within the jurisdiction of this Court.

V.

That the defendant above named is indebted to the plaintiff in the sums hereinafter set forth, with interest thereon at the rate of six per cent per annum from the dates hereinafter set forth opposite said sums:

\$192.76	1/15/49	\$119.95	3/24/49
200.45	3/26/49	202.40	3/31/49
218.55	3/31/49	204.05	4/ 5/49
206.35	3/26/49	132.45	3/25/49
123.30	3/24/49	187.75	4/18/49
151.51	1/ 4/49	240.31	1/ 4/49
123.00	3/25/49	165.05	3/18/49
109.40	3/24/49	231.35	3/18/49
193.55	3/23/49	183.65	3/18/49
131.15	3/18/49	126.41	1/ 7/49
202.02	1/ 7/49	290.47	1/ 5/49
217.35	3/31/49	155.30	4/25/49
139.61	1/ 5/49	92.70	4/ 5/49
160.10	3/18/49	213.49	1/ 4/49
192.86	1/ 7/49	173.73	1/ 5/49
153.15	4/ 5/49	233.10	3/26/49
101.40	3/16/49	193.91	1/ 7/49

158.05	3/25/49	132.05	4/ 5/49
116.97	4/ 2/49	136.80	3/16/49
177.35	4/ 5/49	100.31	1/15/49
207.35	4/ 8/49	179.43	1/15/49
228.70	3/31/49	185.30	4/18/49
206.25	3/31/49	211.15	3/18/49
201.15	3/18/49	79.38	1/15/49
149.35	3/26/49	133.10	3/18/49
113.14	1/ 5/49	84.00	4/18/49
139.75	3/24/49		
187.89	1/ 5/49		
200.10	3/31/49		
132.95	3/26/49		
123.05	3/26/49		
173.00	3/23/49		

upon a written contract of guarantee and for money paid by mistake under the following circumstances:

VI.

That on the dates hereinafter set forth checks were drawn on the Treasurer of the United States by Paul D. Banning, Chief Disbursing Officer, Symbol 312, and by A. H. Hoiland and H. Rogers, Regional Disbursing Officers, Symbols 412 and 415, respectively, U. S. Treasury Department, payable to the order of the payees hereinafter listed, photo-static copies of which checks are annexed hereto and marked "Exhibit A" and made a part hereof by reference; that the following list sets forth the check number, the date of issuance, the amount, symbol and name of payee:

Check No.	Date	Amount	Symbol	Payee
18,435,026	12/23/48	\$192.76	312	Homer C. Alexander
10,393,893	3/16/49	200.45	412	Leslie C. & Lila L. Allen
11,058,865	3/11/49	218.55	415	Theodore F. Armour
11,098,442	3/16/49	206.35	415	Ernest J. Bell
11,000,832	3/ 8/49	123.30	415	James E. Brooks
18,372,324	12/ 6/48	151.51	312	Steven H. Brown
10,328,967	3/ 8/49	123.00	412	Alsen C. Butler
11,059,695	3/11/49	109.40	415	George C. Butler
11,036,939	3/10/49	193.55	415	Benjamin D. Carmena
10,328,969	3/ 8/49	131.15	412	Lionel T. Frost
18,435,027	12/23/48	202.02	312	George C. Fryer
10,393,963	3/16/49	217.35	412	Alfred D. & Flora B. Haase
18,372,326	12/ 6/48	139.61	312	Joseph T. Harrison
10,316,836	3/ 7/49	160.10	412	Melvin C. Hartford
18,435,028	12/23/48	192.86	312	Thomas C. Henderson
10,393,985	3/16/49	153.15	412	George H. & Theresa P. Jefferson
10,303,449	3/ 4/49	101.40	412	Ernest J. & Dorothy J. Johnson
11,053,823	3/11/49	158.05	415	Amos L. Johnson
10,434,520	3/18/49	116.97	412	Jack T. Johnson
10,393,989	3/16/49	177.35	412	Napoleon F. & Ruby M. Jones
10,507,398	3/25/49	207.35	412	Theodore L. & Bertha I. Jones
10,467,124	3/23/49	228.70	412	Melvin C. Kaufman
10,263,291	3/22/49	206.25	415	L. J. & L. M. Kirkland
11,012,189	3/ 8/49	201.15	415	Leon B. Lamonica
11,130,502	3/17/49	149.35	415	Macie C. La Motte
18,372,321	12/ 6/48	113.14	312	Emery C. Lewis
10,322,859	3/ 7/49	119.95	412	Sidney A. Lipscomb
10,431,300	3/18/49	202.40	412	James H. McIntyre
10,431,299	3/18/49	204.05	412	Harold M. Manda
10,328,966	3/ 8/49	132.45	412	Roy C. Manisco
10,431,301	3/18/49	187.75	412	Tony L. Mareno
18,372,327	12/ 6/48	240.31	312	Olliver A. Martin
11,006,787	3/ 8/49	165.05	415	Thomas R. Mason
10,328,970	3/ 8/49	231.35	412	Morris E. Matthews
10,328,971	3/ 8/49	183.65	412	Paul R. Mencer
18,372,323	12/ 6/48	126.41	312	Eugene Montague
18,372,325	12/ 6/48	290.47	312	Arthur Mouton

Check No.	Date	Amount	Symbol	Payee
10,259,476	3/22/49	155.30	415	L. C. & L. P. Moyas
11,098,436	3/16/49	92.70	415	Claude C. Mullins
18,372,328	12/ 6/48	213.49	312	Ernest Munson
18,372,322	12/ 6/48	173.73	312	Roosevelt S. Nance
11,115,657	3/16/49	233.10	415	Charlie T. Nash
18,435,030	12/23/48	193.91	312	Taney H. Peltier
10,261,110	3/22/49	132.05	415	E. I. & G. T. Price
10,303,672	3/ 4/49	136.80	412	John E. Quincy
18,435,029	12/23/48	100.31	312	Harvey P. Rester
18,435,025	12/23/48	179.43	312	Tileo C. Romero
10,433,673	3/18/49	185.30	412	Richard L. Samuels
11,004,401	3/ 8/49	211.15	415	James F. Smith
18,435,024	12/23/48	79.38	312	Dudley C. Starks
10,997,921	3/ 7/49	133.10	415	George E. Starks
10,434,515	3/18/49	84.00	412	Mannie C. Taylor
11,046,696	3/10/49	139.75	415	Albert T. Thomas
18,372,320	12/ 6/48	187.89	312	Emanuel G. Thomas
10,481,380	3/23/49	200.10	412	Leonard F. Watson
10,369,456	3/14/49	132.95	412	George Williams
10,328,972	3/ 8/49	123.05	412	Henry O. Williams
11,050,700	3/11/49	173.00	415	Singer D. Woods

VII.

That on the dates listed in paragraph V above the defendant, Security-First National Bank of Los Angeles, presented said checks to the plaintiff, through the Los Angeles Branch of the Federal Reserve Bank of San Francisco, fiscal agent of the Treasurer of the United States, with the names of the payees listed in paragraph VI above written upon the backs thereof, and with the [6] endorsements thereon of the defendant, Security-First National Bank of Los Angeles, in the manner and words and figures as shown on the reverse side of said "Exhibit A", said defendant's aforesaid endorsement, including the words "Prior Endorsements Guaranteed".

VIII.

That thereupon the plaintiff, through the said Federal Reserve Bank of San Francisco, relying upon the said guarantees by the defendant, Security-First National Bank of Los Angeles, that the names written upon the backs of said checks were the genuine signatures and endorsements of the payees, and relying upon the representation by the said defendant that it had valid title to said checks, paid the amounts thereof to the defendant, Security-First National Bank of Los Angeles.

IX.

That the said names of the payees set forth in paragraph VI above were the names of fictitious and nonexistent persons; that the plaintiff had no knowledge of the foregoing either at the time the aforesaid checks were issued or at the time plaintiff paid the amount thereof to the defendant, as aforesaid.

X.

That the names of the said payees endorsed upon the aforesaid checks were forged and had been wrongfully and fraudulently written upon the same by persons other than the named payees who were fictitious and nonexistent persons, as aforesaid.

XI.

That the payments of said checks paid by the plaintiff to the defendant as described in paragraph VIII of this complaint were made under a mistake of fact and without knowledge that the signatures

of the said payees thereon had been forged upon the [7] back of said checks, and that the said payees were fictitious and nonexistent persons.

XII.

That the names of the payees written upon the backs of said checks were not the genuine signatures and endorsements of payees named upon the face of said checks, nor did said defendant receive said checks from the payees thereon named; in truth and in fact the purported endorsements were forgeries and the defendant, Security-First National Bank of Los Angeles, when it presented said checks and received payment of the amounts thereof, as aforesaid, had no valid or legal title to said checks.

XIII.

That upon discovery of the aforesaid forgeries and the want of title of the defendant, Security-First National Bank of Los Angeles, the plaintiff, through the said Federal Reserve Bank of San Francisco, gave notice thereof to the said defendant and demanded the return of the sums paid to said defendant upon said checks, but the said defendant refused to repay to the plaintiff the said sums or any part thereof.

XIV.

That prior to the commencement of this action the plaintiff demanded from said defendant the sums above mentioned, but the said defendant has failed, neglected and refused, and still fails, neglects

and refuses, to repay to the plaintiff the said sums or any part thereof. The whole thereof in the amounts listed in paragraphs V and VI, together with interest thereon at the rate of six per cent per annum from the dates set forth in paragraph V of this complaint, is now due, owing and unpaid to the plaintiff from the defendant. [8]

Wherefore, plaintiff prays judgment against the defendant, Security-First National Bank of Los Angeles, in the sum of \$9,719.15, together with interest thereon at the rate of six per cent per annum, and for its costs incurred herein, and for such other and further relief as to this Honorable Court may seem meet, just and proper in the premises.

LAUGHLIN E. WATERS,

United States Attorney,

MAX F. DEUTZ,

Assistant U. S. Attorney,

Chief of Civil Division,

EDWIN H. ARMSTRONG,

Assistant U. S. Attorney,

/s/ EDWIN H. ARMSTRONG,

Attorneys for Plaintiff. [9]

EXHIBIT "A"

SAN FRANCISCO, CALIF. 18,435,026[✓]

12 Treasurer of the United States

THROUGH FEDERAL RESERVE BANK OF SAN FRANCISCO ¹¹⁻³⁷/₀₀₀ DEC 23 1948

PAY TO THE ORDER OF **HOMER C ALEXANDER** **PAID**

1711 WEST JEFFERSON BLVD
LOS ANGELES CALIF

166030

19 JAN 9
Paul D. Banning
73-33 CHIEF DISBURSING OFFICER

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - REQUIRE IDENTIFICATION 312

The type should appear below on ink or indelible pencil.

If the endorsement is made in pencil, the note must be returned to the issuing office with the giving their place of payment in full.

It is required that this note be promptly negotiated.

*Homer C. Alexander
Alma L. Lee Realty
1711 W. Jefferson Blvd.*

JAN 5 1949

SAN FRANCISCO, CALIF. 1-12 10,393,893

12 Treasurer of the United States

THROUGH FEDERAL RESERVE BANK OF SAN FRANCISCO ¹¹⁻³⁷/₀₀₀ MAR 16 1949

PAY ***200 DOLLARS 45 CTS ***200.45*

TO THE ORDER OF LESLIE C & LILA L ALLEN
1711 WEST JEFFERSON BLVD
LOS ANGELES 7 CALIF

PATG 26 MAR 9

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER - - REQUIRE IDENTIFICATION

412

The payee should endorse below in ink or indelible pencil.

If the endorsement is made by mark (X) it must be witnessed by two persons who can write, giving their places of residence in full.

It is suggested that this check be promptly negotiated.

Leslie C. Allen
Lila L. Allen
1711 West Jefferson

JEPFEN-ON & AN 1-12-49
16-25
PAY TO THE ORDER OF ANY BANK OR BANKER IN THE CITY OF LOS ANGELES CLEARING HOUSE THROUGH THE FIRST NATIONAL BANK 1st Los Angeles 16-3

1-12

copy
to
Hester.

EASURY
SION OF
URSEMENT



TAX REFUND

ABOVE OBJECT

SAN FRANCISCO, CALIF.,

1-47

10,393,985

12

Treasurer of the United States

THROUGH FEDERAL RESERVE BANK OF SAN FRANCISCO

11-37
000

MAR 16 1949

PAY \$***153 DOLLARS 15 CTS

\$***153.15*

TO THE
ORDER OF

GEORGE H & THERESA P JEFFERSON
1711 WEST JEFFERSON BLVD
LOS ANGELES 7 CALIF

PAID

5 APR 9



DO NOT FOLD, SPINDLE OR MUTILATE

KNOW YOUR ENDORSE - - REQUIRE IDENTIFICATION

412

passes you should require full identification
and endorsement in your presence as claims
against endorser may otherwise result.

The upper should endorse below in ink
or indelible pencil.

If the endorsement is made by mark (X) it
must be witnessed by two persons who can write,
giving their places of residence in full.

It is suggested that this check be promptly
negotiated.

George H. Jefferson
Theresa P. Jefferson

26. PAY TO THE ORDER OF
SECURITY FIRST NATIONAL
BANK OF LOS ANGELES
4000 10th St
LOS ANGELES 10, CALIF.

1-47

CARRY OVER
OF
REMENT

12

Treasurer of the United States

SAN FRANCISCO, CALIF.

1-25

10,434,520

THROUGH FEDERAL RESERVE BANK OF SAN FRANCISCO

11-37
000

MAR 18 1949

PAY ***116 DOLLARS 97 CTS ***116.97**

TO THE
ORDER OF

JACK T JOHNSON
224 E 28TH ST
LOS ANGELES 11 CALIF

PAID A

2 APR 9

179 REGIONAL DISBURSING OFFICER

DO NOT FOLD, SPINDLE OR MUTILATE
KNOW YOUR ENDORSER . . REQUIRE IDENTIFICATION

412

endorse below in ink
it made by mark (X) if
persons who can write
figure in full
this check be promptly

LOS ANGELES
SECURITY FIRST NATIONAL BANK
OF LOS ANGELES 16-3

MA 1949

1-25



[Title of District Court and Cause.]

ANSWER OF DEFENDANT SECURITY-
FIRST NATIONAL BANK, A NATIONAL
BANKING ASSOCIATION

Comes now defendant Security-First National Bank, a National Banking Association, and for answer to plaintiff's complaint admits, denies and alleges as follows:

I.

Admits the allegations of paragraph I of plaintiff's complaint and alleges that this court also has jurisdiction of this action by virtue of the provisions of Title 28, Section 1348, United States Code.

II.

Admits the allegations of paragraph II of plaintiff's complaint.

III.

Admits the allegations of paragraph III of plaintiff's complaint, except that it alleges that the name of this defendant [30] has been changed since the filing of plaintiff's complaint to Security-First National Bank, and alleges that the true name of this defendant is now "Security-First National Bank."

IV.

Defendant here answering is without knowledge or information sufficient to form a belief as to the truth of the allegations of paragraph IV of plaintiff's complaint.

V.

Denies the allegations of paragraph V of plaintiff's complaint.

VI.

Admits the allegations of paragraph VI of plaintiff's complaint, and alleges in that regard that each and all of the payees therein listed were fictitious and nonexistent persons but were represented to the Government as being actual existing persons by an impostor or impostors and were considered as actual existing persons by the Government.

VII.

Admits the allegations of paragraph VII of plaintiff's complaint.

VIII.

For answer to paragraph VIII of plaintiff's complaint, defendant denies, each, every and all of the allegations contained and set forth in said paragraph, except that defendant admits that the amounts referred to in said paragraph of plaintiff's complaint were paid to defendant.

IX.

Admits the allegations of paragraph IX of plaintiff's complaint, but in this connection alleges that plaintiff had in its possession and at its disposal all the information and means necessary to readily ascertain that all such named payees were fictitious and nonexistent in fact, which plaintiff failed and [31] neglected to make use of.

X.

Denies the allegations of paragraph X of plaintiff's complaint, except that defendant admits that the payees named in said checks were fictitious and nonexistent persons, but alleges that the actual persons endorsing said checks were the same persons intended by the Government to be the payees in said checks and the same persons as were intended by the Government to endorse said checks.

XI.

Denies the allegations of paragraph XI of plaintiff's complaint, except that defendant admits that the said payees listed in said checks were fictitious and nonexistent persons.

XII.

Denies the allegations of paragraph XII of plaintiff's complaint.

XIII.

For answer to paragraph XIII of plaintiff's complaint, admits that on or about March 25, 1952 plaintiff gave notice to defendant and demanded the return of the amount of said checks, including two other checks since withdrawn from claim by the Government, and admits that defendant refused and continues to refuse to pay to the plaintiff the sums alleged in said paragraph XIII or any part thereof.

XIV.

For answer to paragraph XIV of plaintiff's complaint, admits and alleges that on or about July

29, 1954 plaintiff demanded the return of the amount of said checks, and admits that defendant refused and still refuses to pay to plaintiff the amount of said checks or any part thereof. Denies each, every and all of the other allegations of said paragraph. [32]

First Affirmative Defense

For a separate, distinct and affirmative defense to plaintiff's complaint, defendant alleges that said complaint fails to state a claim upon which relief can be granted against the defendant.

Second Affirmative Defense

For a second separate, distinct and affirmative defense to plaintiff's complaint, defendant alleges as follows:

1. Defendant is informed and believes and upon such information and belief alleges that prior to the issuance of said checks referred to in paragraph VI of plaintiff's complaint, one or more persons then unknown to both plaintiff and defendant but using the respective names as are listed in said paragraph VI as payees of said checks, filed with the plaintiff income tax returns in each of said respective names showing overpayments of income tax in the respective amount as to each payee set forth in paragraph VI of plaintiff's complaint.

2. Defendant is informed and believes and upon such information and belief alleges that upon receipt of said tax returns and without first checking

its records to ascertain whether the taxes claimed in said returns to have been paid to plaintiff had in fact been paid, and relying wholly upon said tax returns and accepting said tax returns as genuine, although in fact false and fraudulent and the work of an impostor, or impostors, plaintiff issued the respective checks described in paragraph VI of plaintiff's complaint to said fictitious and nonexistent payee taxpayers whom the Government considered existed in fact and which the Government had concluded were entitled to a refund as claimed.

3. Defendant is informed and believes and upon such information and belief alleges that to effectuate the intended refund aforesaid, the plaintiff, after issuing said respective checks, [33] caused the same to be mailed to the respectively named payees at their addresses as set out in said income tax returns with the belief and intention that each person named as payee in said checks would receive the benefits therefrom.

4. Defendant is informed and believes and upon such information and belief alleges that each of said checks was endorsed by the person who signed the tax return showing the overpayment to cover which the check was issued and that each of the checks described in paragraph VI of plaintiff's complaint was endorsed by the person who plaintiff intended to be the payee thereof, and that none of the endorsements on said checks was or is a forgery.

Third Affirmative Defense

1. Defendant incorporates by this reference the allegations contained and set forth in paragraphs 1 to 4 inclusive of the allegations contained in defendant's Second Affirmative Defense as fully as though set forth herein.

2. Defendant alleges that in failing to ascertain, from sources and information within plaintiff's possession and readily at hand and available, whether a return had been filed by the specified employer, or the named fictitious and nonexistent payee was in fact an employee, or whether such payee was entitled to a refund for taxes claimed in said income tax returns to have been paid to plaintiff or whether such taxes had in fact been paid, plaintiff was negligent, and that its negligence in this regard proximately caused the loss suffered by the plaintiff and not any action or nonaction by the defendant handling said Government checks in the regular course of business, and as between the respective parties plaintiff should stand said loss. [34]

Fourth Affirmative Defense

For a fourth separate, distinct and affirmative defense to plaintiff's complaint, defendant alleges that the claim of plaintiff alleged in its complaint is barred by the laches of plaintiff in this, that any alleged reliance placed by plaintiff upon the endorsement and guaranty contained in said endorsement of the checks as referred to in paragraph VIII is barred by laches, and plaintiff is estopped

and debarred from making the claim referred to in plaintiff's complaint, for the reason that plaintiff first knew that the income tax returns filed with the plaintiff were false and fraudulent prior to October 21, 1949. Despite this, plaintiff did not file its complaint until August 25, 1955, and such long delay has been prejudicial to this defendant, and plaintiff is now estopped and debarred from relying upon any claimed endorsement or guaranty contained in said endorsement of defendant.

Wherefore, defendant prays that plaintiff take nothing by its action, that defendant have judgment for its costs incurred herein against plaintiff, and for such other relief as to the court may seem meet and proper in the circumstances.

FARRAND, FISHER & FARRAND,
ROSS C. FISHER,
KNOX FARRAND,
STEPHEN M. FARRAND,

/s/ By ROSS C. FISHER,

Attorneys for Defendant. [35]

Acknowledgment of Service Attached. [36]

[Endorsed]: Filed April 18, 1958.

[Title of District Court and Cause.]

STIPULATION OF FACTS AND ORDER

It Is Hereby Stipulated, subject to the approval of the Court, by and between counsel for plaintiff Laughlin E. Waters, United States Attorney, Rich-

ard A. Lavine and Burton C. Jacobson, Assistant United States Attorneys, and Farrand, Fisher & Farrand by Ross C. Fisher, counsel for defendant Security-First National Bank, formerly and sued herein as Security-First National Bank of Los Angeles, that the following facts are admitted:

I.

Unknown to either plaintiff or defendant on or about the year 1949 and prior thereto a scheme was entered into to defraud the Government whereby certain persons, namely, Arthur H. Lange, Aline Lange Lee, a real estate broker of Los Angeles, and her son and other members of her family caused to be prepared fictitious W-2 [37] forms concerning salary and tax withheld listing alleged employers, and they then filed income tax returns with said W-2 forms attached in the respective fictitious names. These returns and forms were prepared in such a way as to indicate that a refund on income tax was due and payable to the respective fictitious persons appearing on said returns. The said persons did not use their own names, but used fictitious names in all instances on the returns and showed addresses for said fictitious persons.

II.

Said income tax returns and withholding statements were filed by the said persons with the District Director of Internal Revenue. Upon receipt of said income tax returns and withholding statements, the District Director of Internal Revenue,

(1) without first checking his records to ascertain whether the taxes claimed to have been paid in said returns and withholding statements had in fact been paid or ascertaining any other facts with respect thereto,

(2) without any investigation or checking of his records with respect to any of said returns or withholding statements,

ordered payment of refunds to said fictitiously named persons; the refund checks were drawn and made payable to and were mailed to the respective fictitiously named persons appearing on and who signed the income tax returns and withholding statements at the addresses shown on the returns. There is involved in this action fifty-eight (58) such checks aggregating \$9,719.15. Said checks are listed, setting forth the check number, the date of issuance, the amount, symbol and name of payee of each check, in paragraph VI of plaintiff's complaint; annexed thereto and marked Exhibit A are photostatic copies of said checks. Said list and the photostatic copies of said checks are incorporated by reference herein and made a part hereof as though fully set forth. [38]

III.

Each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was issued to said fictitiously named person and which was then nego-

tiated and in the course of business cashed by the defendant bank. Upon receipt and encashment of the said checks by the defendant bank, the checks were thereafter endorsed by said bank in normal course of business with a statement thereon "All prior endorsements guaranteed" and were presented for payment and they were paid by the Government's fiscal agent.

IV.

Upon discovery that a fraud had been committed the plaintiff gave notice thereof as to all checks involved herein to defendant and demanded that the amounts paid to the bank by the Government's fiscal agent be refunded.

V.

On or about April 1, 1952 defendant by a letter addressed to the Treasury Department refused payment on the demand for refund on the checks herein involved and defendant has continuously refused payment on the subsequent demands for refund on the checks herein involved.

It Is Further Stipulated that there are no pertinent facts other than those above mentioned, pertaining to the issuance, negotiation and payment of the checks involved herein and both plaintiff and defendant agree that a trial as to the facts is not necessary and that the court may consider this matter as if the same had been tried and all the above stated facts had been found to be true.

It Is Further Stipulated that the matter is deemed submitted to the court for decision. [39]

Dated this 2nd day of May, 1958.

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief of Civil Division,
/s/ BURTON C. JACOBSON,
Assistant U. S. Attorney,
Attorneys for Plaintiff.

FARRAND, FISHER &
FARRAND,
ROSS C. FISHER,
KNOX FARRAND,
STEPHEN M. FARRAND,
/s/ By ROSS C. FISHER,
Attorneys for Defendant.

It Is So Ordered: This 12th day of May, 1958.

/s/ WM. M. BYRNE,
United States District Judge. [40]

[Endorsed]: Filed May 12, 1958.

United States District Court, Southern District
of California, Central Division

Civil No. 18659-WB

UNITED STATES OF AMERICA, Plaintiff,

vs.

SECURITY-FIRST NATIONAL BANK OF LOS
ANGELES, a national banking association,
Defendant.

FINDINGS OF FACT, CONCLUSIONS OF LAW AND JUDGMENT

The above entitled case, pursuant to stipulation of facts entered into between the parties hereto and order thereon filed herein May 12, 1958, was submitted to this court for decision, plaintiff appearing in the action by Laughlin E. Waters, United States Attorney, Richard A. Lavine and Burton C. Jacobson, Assistant United States Attorneys, and defendant appearing by Ross C. Fisher of Farrand, Fisher & Farrand, attorneys, and the court having considered all of the pleadings and said stipulation of facts, and being fully advised in the premises, makes herein its Findings of Fact, Conclusions of Law and Judgment as follows:

Findings of Fact

1. Plaintiff, United States of America, herein sometimes referred to as the "Government", was

at all times herein mentioned and is now a body politic and corporation sovereign. [41]

2. Defendant, Security-First National Bank, at all times herein mentioned was and now is a national banking association, having its principal place of business in the Southern District of California and within the jurisdiction of this court. It was originally sued herein by its former name, Security-First National Bank of Los Angeles. Subsequent to the filing of the complaint its name was duly and regularly changed to and now is Security-First National Bank.

3. This suit is one of a civil nature, commenced by the United States of America, plaintiff, to recover amounts paid by its fiscal agent on checks drawn and issued by the Internal Revenue Service subsequently endorsed and presented for payment to said agent.

4. The Internal Revenue laws of the United States at all times herein mentioned provided and do now provide that employees shall receive at the end of each calendar year "W-2" forms from each employer, indicating thereon the amount of income paid by the employer to the employee, the amount of Social Security withheld, and the amount of income tax withheld, and at the end of each calendar year on or before the filing date for income tax returns the employee prepares an income tax return attaching thereto copies of said "W-2" form. That in the event the amount of income tax withheld during the calendar year exceeds the amount of in-

come tax due and owing by the employee the employee indicates that the money shall either be applied to the ensuing year's income tax or be refunded to the employee.

5. Unknown to either plaintiff or defendant, on or about the year 1949 and prior thereto a scheme was entered into to defraud the Government, whereby Arthur H. Lange, Aline Lange Lee, a real estate broker of Los Angeles, and her son, and other members of her family, caused to be prepared fictitious "W-2" forms concerning salary and tax withheld, listing alleged employers, and they then [42] filed income tax returns with said "W-2" forms attached in the respective fictitious names. These returns and forms were prepared in such a way as to indicate that a refund on income tax was due and payable to the respective fictitious persons appearing on said returns. The said persons did not use their own names but used fictitious names in all instances on the returns and showed addresses for said fictitious persons.

6. Said income tax returns and withholding statements were filed by said persons with the District Director of Internal Revenue. Upon receipt of said income tax returns and withholding statements the District Director of Internal Revenue,

(1) Without first checking his records to ascertain whether the taxes claimed to have been paid in said returns and withholding statements had in fact been paid, or ascertaining any other facts with respect thereto, and

(2) Without any investigation or checking of his records with respect to any of said returns or withholding statements ordered payment of refunds to said fictitiously named persons.

The refund checks were drawn and made payable to and were mailed to the respective fictitiously named persons appearing on and who signed the income tax returns and withholding statements at the addresses shown on the returns. Fifty-eight of such checks, aggregating \$9,719.15, were so drawn and mailed. Said checks are listed, setting forth the check number, date of issuance, amount involved, and name of payee of each check, in plaintiff's complaint, and photostatic copies of said checks are annexed thereto as Exhibit A. Said list and said photostatic copies are incorporated by reference herein and made a part of these findings.

7. Each of said checks was endorsed by the person who signed the tax return showing the overpayment, to cover which the check was [43] issued to said fictitiously named person, which was then negotiated and in the course of business cashed by defendant bank. Upon receipt and encashment of said checks by the defendant bank, the checks were thereafter endorsed by said bank in the normal course of business with the statement thereon "All prior endorsements guaranteed", and were presented for payment and they were paid by the Government's fiscal agent.

8. Upon discovery that a fraud had been com-

mitted plaintiff gave notice thereof to defendant as to all checks involved to date, and demanded that the amounts paid to the defendant bank by the Government's fiscal agent, namely the sum of \$9,719.15, be refunded, but said defendant has at all times refused to refund said amounts.

From the foregoing Findings of Fact the court makes the following Conclusions of Law:

Conclusions of Law

1. This court has jurisdiction over the subject matter hereof and of the parties hereto pursuant to Title 28 United States Code, Sections 1345 and 1348.

2. The defendant bank is not liable to the plaintiff upon its guaranty of all prior endorsements as such prior endorsements were not forged endorsements as claimed by plaintiff.

3. The United States of America is therefore not entitled to judgment against the defendant bank as contended in the prayer of the complaint, and the defendant is entitled to judgment in its favor and against the United States of America.

Judgment

In accordance with the foregoing Findings of Fact and Conclusions of Law, It Is Ordered, Adjudged and Decreed:

1. That plaintiff, United States of America, take nothing by its said action, and that judgment be

and the same is hereby entered [44] in favor of defendant Security-First National Bank against plaintiff.

Dated at Los Angeles, California, this 2nd day of June, 1958.

/s/ WM. M. BYRNE,
United States District Judge.

Approved as to form:

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Assistant U. S. Attorney,
Chief of Civil Division,
BURTON C. JACOBSON,
Assistant U. S. Attorney,
/s/ By BURTON C. JACOBSON,
Assistant U. S. Attorney. [45]

Acknowledgment of Service Attached. [46]

[Endorsed]: Filed and Entered June 2, 1958.

[Title of District Court and Cause.]

NOTICE OF APPEAL

Notice is hereby given that the United States of America, the plaintiff above-named, hereby appeals to the United States Court of Appeals for the Ninth Circuit from the final judgment entered in this action on June 3, 1958.

Dated at Los Angeles, California, this 25th day of July, 1958.

LAUGHLIN E. WATERS,
United States Attorney,
RICHARD A. LAVINE,
Asst. U. S. Attorney,
Chief, Civil Division,
/s/ BURTON C. JACOBSON,
Asst. U. S. Attorney,
Attorneys for Plaintiff. [46]

Affidavit of Service Attached. [47]

[Endorsed]: Filed July 25, 1958.

[Title of District Court and Cause.]

CERTIFICATE BY CLERK

I, John A. Childress, Clerk of the above-entitled Court, hereby certify that the items listed below constitute the transcript of record on appeal to the United States Court of Appeals for the Ninth Circuit, in the above-entitled matter:

A. The foregoing pages numbered 1 to 50, inclusive, containing the original:

Complaint.

Answer.

Stipulation of Facts and Order.

Findings of Fact, Conclusions of Law and Judgment.

Notice of Appeal.

Designation of Record on Appeal.

I further certify that my fee for preparing the foregoing record, amounting to \$1.60, has not been paid by appellant.

Dated: August 27, 1958.

[Seal] JOHN A. CHILDRESS,
 Clerk,

/s/ By WM. A. WHITE,
 Deputy Clerk.

[Endorsed]: No. 16165. United States Court of Appeals for the Ninth Circuit. United States of America, Appellant, vs. Security-First National Bank, Appellee. Transcript of Record. Appeal from the United States District Court for the Southern District of California, Central Division.

Filed and Docketed: August 28, 1958.

/s/ PAUL P. O'BRIEN,
Clerk of the United States Court of Appeals for
the Ninth Circuit.

United States Court of Appeals
For The Ninth Circuit

CA No. 16165

UNITED STATES OF AMERICA, Appellant,

vs.

SECURITY-FIRST NATIONAL BANK OF LOS
ANGELES, a national banking association,
Appellee.

APPELLANT'S STATEMENT OF POINTS ON
APPEAL AND DESIGNATION OF REC-
ORD TO BE PRINTED

The appellant hereby designates the following
Points on Appeal in the above-entitled matter:

1. The district court erred in holding that defendant bank was not liable to the United States upon its guarantees of prior endorsements.
2. The district court erred in entering judgment for defendant bank.

Appellant Hereby Designates the following record to be printed in the above-entitled matter:

1. Complaint for money on forged checks (Treasury), filed August 25, 1955, including the checks, which are part of Exhibit A to the complaint, to the order of the following payees:

- a. Homer C. Alexander, Check No. 18,435,026;
- b. Leslie C. and Lila L. Allen, Check No. 10,-393,893;
- c. George H. and Theresa P. Jefferson, Check No. 10,393,985;
- d. Jack T. Johnson, Check No. 10,434,520;
2. Answer of defendant Security-First National Bank, filed April 18, 1958;
3. Stipulation admitting facts and order, filed May 12, 1958;
4. Findings of fact, conclusions of law and judgment, filed June 3, 1958;
5. Notice of appeal.

Dated: This 8th day of September, 1958.

LAUGHLIN E. WATERS,
United States Attorney,

RICHARD A. LAVINE,
Asst. U. S. Attorney,
Chief, Civil Division,

/s/ BURTON C. JACOBSON,
Asst. U. S. Attorney,
Attorneys for Appellant.

Affidavit of Service by Mail Attached.

[Endorsed]: Filed September 10, 1958. Paul P. O'Brien, Clerk.

No. 16165.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

UNITED STATES OF AMERICA,

Appellant,

vs.

SECURITY-FIRST NATIONAL BANK,

Appellee.

On Appeal From the United States District Court for the
Southern District of California, Central Division.

APPELLEE'S ANSWERING BRIEF.

ROSS C. FISHER,

KNOX FARRAND,

STEPHEN M. FARRAND,

DOUGLAS T. FOSTER,

Attorneys for Appellee.

FILED

MAR 11 1959

PAUL P. O'BRIEN, CLERK

FARRAND, FISHER & FARRAND,

215 West Sixth Street,

Los Angeles 14, California,

Of Counsel.

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No. 16165.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

UNITED STATES OF AMERICA,

Appellant,

vs.

SECURITY-FIRST NATIONAL BANK,

Appellee.

On Appeal From the United States District Court for the
Southern District of California, Central Division.

APPELLEE'S ANSWERING BRIEF.

Statement of the Case.

The pertinent facts found by the Court below were stipulated to by the parties. Appellant's statement of the case (Op. Br. pp. 2-4) while not necessarily inaccurate, contains some statements not to be found in the stipulation of facts, nor in the Court's findings, and are not particularly pertinent to this case. We therefore summarize the pertinent facts of the case.

About the year 1949 and prior thereto, a fraudulent scheme to defraud the Government was entered into by Arthur H. Lange, Aline Lange Lee, a real estate broker of Los Angeles, her son and other members of her family [R. 28]. In pursuance of this scheme said persons prepared false and fictitious "W-2" forms concerning salary and income tax withheld, listing alleged employers, and at-

tached said forms to income tax returns which were then filed in their respective assumed and fictitious names [R. 28].¹ These persons did not use their own names but used in all instances fictitious or assumed names and showed addresses therefor [R. 28]. The tax returns, with the withholding forms attached, were in each instance fraudulently prepared to indicate that a refund on income tax was due and payable to the person filing same, under his fictitious and assumed name [R. 28]. The District Director of Internal Revenue, with whom said returns and forms were filed, upon receipt of same ordered payment of the refunds to the fictitiously named persons who had filed the returns [R. 28-29]. The District Director ordered the payment of said refunds without first checking or making any investigation of his records with respect to any of said tax returns or withholding statements to ascertain whether or not the taxes fraudulently represented as having been paid had in fact been paid, or ascertaining any other facts with respect thereto [R. 28-29]. Pursuant to said District Director's said order, the refund checks were drawn and made payable to and were mailed to the respective persons, in their fictitious and assumed names, appearing on and who had signed the tax returns and withholding statements at the addresses shown on the returns [R. 29].

¹The court found that the Internal Revenue Laws of the United States at the time involved in this case and at present provide that, employees shall receive at the end of each calendar year "W-2" forms from each employer, indicating thereon the amount of income paid by the employer to the employee, the amount of Social Security withheld, and the amount of income tax withheld, and at the end of each calendar year on or before the filing date for income tax returns the employee prepares an income tax return attaching thereto copies of said "W-2" form. That in the event the amount of income tax withheld during the calendar year exceeds the amount of income tax due and owing by the employee the employee indicates that the money shall either be applied to the ensuing year's income tax or be refunded to the employee [R. 27-28].

There are involved herein fifty-eight such checks, aggregating \$9,719.15 [R. 29]. Each of said checks so issued and delivered was endorsed by the person who signed the tax return showing the over-payment, to cover which the check was issued to said person in his fictitious and assumed name [R. 29]. Said checks were negotiated and in the course of business were received and cashed by defendant bank [R. 29]. Thereafter, in the normal course of business, defendant bank endorsed said checks with the statement thereon "All prior endorsements guaranteed" and presented same for payment and they were paid by the Government's fiscal agent [R. 29]. Upon discovery that a fraud had been committed plaintiff notified defendant thereof as to all checks involved herein, and demanded repayment in the amount of \$9,719.15, which defendant bank has refused to make [R. 29-30]. The District Court gave judgment for defendant bank, holding that defendant was not liable on its guaranty of all prior endorsements as such prior endorsements were not forgeries as claimed by plaintiff [R. 30-31].

Summary of Argument.

As aptly stated in an analogous case involving the precise issue presented herein, "The real question here is whether these signatures are forgeries or mere steps in a fraud." (*United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949), cert. den. 338 U. S. 870. This is the issue presented for this Court's determination.

In holding the endorsements involved in this case were *not* forgeries, the court below correctly applied the impostor rule, a universally accepted rule both as a matter of federal and state law. The facts of this case present a classic case for the application of the impostor rule.

In Point I, we discuss the particular facts necessary for an application of the impostor rule and show why in this case its application, as a matter of federal law, is clear. We also will show that the policy underlying the law of negotiable instruments demands the application of the impostor rule to the facts of this and analogous cases and that the Government is not one privileged to defeat that policy.

In Point II we address ourselves to appellant's argument, the burden of which is premised upon a basic but erroneous assumption that this is a forgery case. The Government refuses to recognize the difference between a forger and an impostor and persists in its assumption that the endorsements involved in this case are forgeries. The Government, in erroneously assuming the very issue presented, thus begs the entire issue when it argues that the Government should not in this case be precluded from setting up the *forgery* (Op. Br. pp. 6-9, 29-30, 46-47). Its argument is misplaced. In support of its argument the Government relies on the *National Metropolitan*² and other related forgery cases. We will demonstrate the irrelevancy of these cases to the case at bar primarily on the basis of the legal issues raised and determined in those cases and the complete absence therein of any mention whatsoever of the impostor rule which is applicable herein. We will demonstrate further that the United States Supreme Court has already on two separate occasions accepted the application of the impostor rule, as a matter of federal law, in two cases indistinguishable from the case at bar, and that the Court by its action has in effect held the *National Metropolitan* and other related forgery cases

²*National Metropolitan Bank v. United States*, 323 U. S. 454 (1945).

wholly inapplicable to a case such as the one at bar.³ In addition we will show that the cases relied upon by the Government, aside from the fact that the issues determined therein have no bearing on this case, are readily distinguishable on their facts from this case.

ARGUMENT.

I.

The Endorsements Were Not Forgeries; the District Court Correctly Held Appellee Was Not Liable Under Its Guarantee of Prior Endorsements.

As indicated in the Summary of the Argument, if the endorsements in question are not forgeries,⁴ the Government cannot prevail. Under federal law the endorsements were not forgeries.

Preliminary to a detailed discussion, it is well that four well settled propositions under federal law be stated:

First, the rule governing the rights and liabilities of the Government on negotiable paper are to be determined by federal courts through reference to federal rather than local law. (*Clearfield Trust Co. v. United States*, 318 U. S. 363, 87 L. Ed. 838 (1943); *National Met. Bank v. United States*, 323 U. S. 454, 89 L. Ed. 383 (1945).)

Secondly, the United States is not a privileged suiter, its rights and liabilities being identical with those of a private individual under the same circumstances. (*United States v. National Exchange Bank of Baltimore*, 270 U. S. 527,

³See Point II, A, pp. 19-23, *infra*.

⁴Forgery as involved herein is to be distinguished from forgery in its popular sense. See *Atlantic Natl. Bank of Jacksonville v. United States*, 250 F. 2d 114, 119 (C. A. 5, 1957); *Pennsylvania Co. etc. v. Fed. Reserve Bank*, 30 Fed. Supp. 982, 985 (D. C. Pa., 1939).

70 L. Ed. 717 (1926); *Clearfield Trust Co. v. United States, supra.*)

Third, the impostor rule should be applied to commercial paper issued by the federal government in those circumstances where it would be applied had the paper been issued by a private individual.⁵ (See *United States v. Union Trust Co.*, 139 Fed. Supp. 819 (D. C. Md., 1956) and cases collected at p. 825.)

Fourth, there is no distinction made between the effect to be given an impersonation by mail and one in person; the impostor who conducts fraudulent negotiations by mail similarly gets title to the instrument thus fraudulently obtained. (See *Atlantic Natl. Bank of Jacksonville v. United States*, 250 F. 2d 114, 117 (C. A. 5, 1957); *Security-First National Bank v. United States*, 103 F. 2d 188, 190 (C. A. 9, 1939); *United States v. Union Trust Co.*, 139 Fed. Supp. 819, 825 (D. C. Md., 1956); *Hartford Acc. & Ind. Co. v. Middletown Natl. Bank*, 126 Conn. 179, 10 A. 2d 604, 607-608 (1939); *Britton on Bills and Notes* (1943), pp. 715-725; Beutels Brannan, *Negotiable Instruments Law* (7th Ed), pp. 470-480; 20 *Words and Phrases*, 97, impostor rule.)

A. The Imposter Rule and Its Application to This Case.

The impostor rule has been often stated, but as accurate a brief statement of the rule as we have found is quoted in the opinion of the court in *Atlantic Natl. Bank of Jacksonville v. United States*, 250 F. 2d 114, 118 (C. A. 5, 1957), as follows:

“ ‘ . . . where the drawer of a check *has dealings* with an impostor who assumes a false name, and the

⁵The Government, of course, concedes that the impostor rule may be applied to Government paper (Op. Br. 28).

check is *intended* for the person with whom the drawer is dealing, payment of the check by the bank to such impostor or on his endorsement will be *authorized* and *binding* upon the . . . drawer, 7 Amer. Jur., Banks, Sec. 599.” (Italics ours.)⁶

The italicized portion of this statement of the rule emphasizes those particular facts which makes this and analogous cases call for the application of the impostor rule. Those facts paint in every such case a requisite picture, the essentials of which are (1) fraud practiced on the drawer by an impostor which induces the drawer to deal with same, (2) such dealing is consummated by the issuance and delivery of a check by the drawer, (3) the check is *intended* for the impostor, in his assumed name, with whom the drawer has been dealing, and the check is *intended to be paid on his endorsement*. (See *Cohen v. Lincoln Sav. Bank*, 275 N. Y. 399, 10 N. E. 2d 457, 461 (1937).) The facts in the case at bar meet these requisites. By virtue of the antecedent fraud practiced on the Government by the impostors (the filing of fraudulent tax returns with fictitious “W-2” forms attached in their assumed and fictitious names), the Government was convinced it was dealing with valid claimants entitled to tax refunds, which in due course induced and resulted in the Government issuing and delivering the checks in question *intended* for the impostors, in their assumed and fictitious names, and obviously issued and delivered with the *intent* that such checks should be paid on their respective endorsements. (Statement of the case, pp. 1-3, *supra*.) That being the clear intent of

⁶See, also, *Hartford Acc. & Ind. Co. v. Middletown Nat. Bank*, 126 Conn. 179, 10 A. 2d 604, 606 (1939), quoting with approval this same statement of the rule.

the Government, under any true test these endorsements were not forgeries. (*United States v. Continental-American Bank & Tr. Co.*, 175 F. 2d 271, 272 (C. A. 5, 1949), cert. den. 338 U. S. 870 (1949); *United States v. First Natl. Bank of Albuquerque*, 131 F. 2d 985 (C. A. 10, 1942), cert. den. 318 U. S. 774 (1943); *Fidelity & Dep. Co. of Md. v. Union Tr. Co.*, 129 F. 2d 1006 (C. A. 2, 1942); *United States v. First Natl. Bank of Prague*, 124 F. 2d 484 (C. A. 10, 1941); *Security-First National Bank v. United States of America*, 103 F. 2d 188 (C. A. 9, 1939); *United States v. Liberty Ins. Bank*, 26 F. 2d 493 (W. D. Ky., 1928); *United States v. Union Tr. Co.*, 139 Fed. Supp. 819 (D. C. Md., 1956); *Schweitzer v. Bank of America*, 42 Cal. App. 2d 536, 109 P. 2d 441 (1941); *Hartford Acc. & Indem. Co. v. Middletown Natl. Bank*, 126 Conn. 179, 10 A. 2d 604 (1939); *Cohen v. Lincoln Sav. Bank*, 275 N. Y. 399, 10 N. E. 2d 457 (1937); *Montgomery Garage Co. v. Mfrs. Liab. Ins. Co.*, 94 N. J. L. 152, 109 Atl. 296 (1920); *Land Title & Tr. Co. v. Northwestern Natl. Bank*, 196 Pa. 230, 46 Atl. 420 (1900); *Anno*. 112 A. L. R. 1435.) Notwithstanding the fact that application of the impostor rule depends upon whether or not the drawer's *intent* was carried out⁷ the Government summarily dismisses this as an unsatisfactory reason for applying the rule. It claims that the drawer's intent is in every impostor case an "unrealistic" test because it is "artificial and arbitrary." (Op. Br. pp. 30-33, 41.)⁸

⁷See cases cited immediately above. Compare *Fulton National Bank of Atlanta v. United States*, 107 F. 2d 86, 87-88 (C. C. A. 5, 1939), a true forgery case.

⁸While the cases sometimes state that the drawer may be said to have a dual intent, first, that he intends to make the instrument payable to the person before him or to the person writing at the other end of the line, in case the negotiation is by correspondence, and

The Government's intention however to deal with the impostors in this case is clear; it is neither artificial, arbitrary nor unrealistic. As the checks in question were obviously intended for persons, not names, the intention of the Government as drawer cannot depend upon the actual existence or nonexistence of the person of the name inserted in the instrument as payee. (*Hartford Acc. & Indemn. Co. v. Middletown Natl. Bank*, 126 Conn. 179, 10 A. 2d 604, 606, 608 (1939).) Any of the impostors could have "assumed the name of Marco Polo with the same results to the bank," (*Schweitzer v. Bank of Amer.*, 42 Cal. App. 2d 536, 109 P. 2d 441 (1941), at p. 541 of 42 Cal. App. 2d) instead of the particular fictitious names

second, that he intends to make the instrument payable to the person whom he believes the stranger to be, "Nevertheless an examination of the cases in other jurisdictions can leave no doubt that, as Brannan points out, in most jurisdictions it has been held that the first is the controlling intent (citations)" *Cohen v. Lincoln Sav. Bank*, 275 N. Y. 399, 10 N. E. 2d 457 (1937), at page 461 of 10 N. E. 2d. See, also *Security-First National Bank v. United States*, 103 Fed. 188 (C. A. 9, 1939); *Montgomery Garage Co. v. Mfrs. Liab. Ins. Co.*, 94 N. J. L. 152, 109 Atl. 296 (1920). The Court in the *Cohen* case, *supra*, went on to say, "It was the finding of this *first intent* which has dictated the conclusion in *every case* where a bank has been exonerated of fault in judgment of a negotiable instrument to a person not named in the instrument." (10 N. E. 2d at p. 461). It is to be noted that under the facts presented by the instant case the drawer can be said to have but *one* intent; that is to say, the so-called dual intent referred to above and present in many impostor cases (*i.e.*, where the impersonation is of a living or existent person whom the drawer may be said to have in mind and whom he believes the impersonator to be) is not present in this case where the drawer is dealing with an impostor, under an assumed and fictitious name. Thus the stranger, to whom he makes the instrument payable, is the person writing at the other end of the line and is the same person he, in fact, believes the stranger to be. It follows, therefore, that there cannot be in this situation anything arbitrary or unrealistic in adhering to the test of the drawer's intent in applying the impostor rule as there is no necessity even that a choice of two possible intents be made. Thus, this is the strongest possible case for the application of the impostor rule. See Note 21, pp. 20-21, *infra*.

they in fact assumed. Appellant concedes this. (Op. Br. p. 27, N. 13.) And, of course, the impostors with whom the Government actually dealt in this case were *actual* persons.⁹ [R. 28.] The checks were issued and delivered by the Government to the impostors, in their assumed and fictitious names, solely to consummate the dealing or transaction between them and for no other reason.¹⁰ (See *Cohen v. Lincoln Sav. Bank*, 275 N. Y. 399, 10 N. E. 2d 457, 461 (1937).) It cannot, we submit, be seriously argued that the Government in this case dealt with the impostors on any basis other than actual persons *believed* to be valid claimants entitled to tax refunds [Findings of Fact, R. 28-29; cf. *Land Title & Tr. Co. v. Northwestern Natl. Bank*, 196 Pa. 230, 46 Atl. 420, 422 (1900)], and that on this basis they issued and delivered refund checks *intended* for the impostors and necessarily with the *intent* that such checks would be paid on their endorsements. (*United States v. First Natl. Bank of Albuquerque*, 131 F. 2d 985, 988 (C. A. 10, 1942), cert. den. 318 U. S. 774 (1943).)

It was stipulated and found as a fact in the District Court that "each of the checks was endorsed by the

⁹See *Fidelity & Dep. Co. of Md. v. Union Tr. Co.*, 129 F. 2d 1006, 1009 (C. A. 2, 1942), affirming 37 Fed. Supp. 3 (C. C. N. Y., 1941); *United States v. Union Trust Co.*, 139 Fed. Supp. 819, 824 (D. C. Md., 1956); *Hartford Accident & Ind. Co. v. Middletown Natl. Bank*, 126 Conn. 179, 10 A. 2d 604, 607 (1939).

¹⁰When the Government issued the checks there was no mistake of fact except the mistake which the Government made when it issued the checks, and the loss is due, not to the bank's error in failing to carry out the Government's intention, but primarily to the Government's own error, into which it was led by the deception previously practiced upon it. See *Hartford Acc. & Indem. Co. v. Middletown Natl. Bank*, 126 Conn. 179, 10 A. 2d 604, 606 (1939); and see *United States v. Union Tr. Co.*, 139 Fed. Supp. 819 (D. C. Md., 1956); *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949), cert. den. 338 U. S. 870 (1949).

person who had signed the tax return on the basis of which the refund check was issued” [R. 23-24, 29]. Thus, as to each check the endorsement placed upon it was the endorsement of the very person with whom the Government had been dealing, under his assumed and fictitious name, and for whom the check was by the Government intended. (Compare *United States v. Liberty Ins. Bank*, 26 F. 2d 493, 494 (W. D. Ky., 1928).) In this posture the actual intent of the Government to deal with the impostors has not only been objectively manifested by the fact of the issuance and delivery of the checks, but that actual intent is conclusively established by the circumstances attending and inducing the issuance and delivery of the checks.¹¹ The existence of this intent is implicit if not express in the findings made below [R. 28-29]. This actual intent being established, appellee has simply paid money on the strength of the persons’ endorsement in each case for whom the money was intended

¹¹The Court in *Cohen v. Lincoln Sav. Bank*, *supra*, 10 N. E. 2d at p. 461, really got to the crux of the matter when, speaking of the drawer’s dominant or controlling intent as being the majority rule or test adhered to in applying the impostor rule, it said:

“It is sufficient to point out that even in those cases which apply to so-called ‘majority rule’ there was proof of an antecedent fraud by which a stranger induced a person to deal with him by masquerading as another and the negotiable instrument was made payable to the impostor as a result of the antecedent fraud and the negotiations induced thereby; and it appeared that the instrument was delivered to consummate the dealings with the stranger and with intent that it should be paid to him”

In short the dominant or controlling intent exists *as a matter of law* when the circumstances attending the issuance and delivery of the checks establish as facts a prior dealing between the drawer and some actual impersonator, fraudulently induced, and such dealing is consummated by issuance and delivery of the checks intended for that very person with whom the Government had been dealing. See Anno. 112 A. L. R. 1435, 1437.

(*Cohen v. Lincoln Savings Bank, supra*, at p. 461 of 10 N. E. 2d) and perforce the endorsements were *genuine*. (*United States v. First Natl. Bank of Albuquerque, supra*, 131 F. 2d at 987, and cases cited, p. 8, *supra*.) Whatever might be said with respect to the drawer's intent in the case of an employee who, alone, is in a position to and does defraud his master¹² under the facts of this and analogous cases nothing is left to "metaphysical speculation" (Op. Br. p. 32) as to what the Government's actual intent was. It is an undisputable fact.

The drawer's intention to deal with the impostors and to pay the checks upon their endorsements can not, of course, depend upon the fact the Government was induced by fraud to deal with the impostors¹³ any more than such intent cannot depend upon the existence or non-existence of a person of the name designated in the instrument as the payee (see p. 9, *supra*).

¹²See *Hartford Acc. & Indem. Co. v. Middletown Natl. Bank*, 126 Conn. 179, 10 A. 2d 604, 607 (1939); *Fidelity & Dep. Co. of Md. v. Union Trust Co.*, 37 Fed. Supp. 3, 5-6, aff. 129 F. 2d 1006, 1009 (C. A. 2, 1942); and compare the facts in *Nat. Met. Bank v. United States*, 323 U. S. 454 (1945); *Wash. Loan & Tr. Co. v. United States*, 134 F. 2d 59 (C. A. D. C., 1943); see Point II, B, pp. 24-25, *infra*.

¹³This is a case no different in principle from the situation where the execution of a contract is fraudulently induced and thus voidable by the party on whom the fraud was practiced, but only so until the rights of innocent third parties intervene. Until voided there is a valid and subsisting contract though fraudulently induced. Where, of course, negotiable instruments are concerned the root of the policy underlying such instruments is to explicitly protect innocent third parties or holders in due course, in the parlance of the law merchant, in the absence of which negotiability would be destroyed. Appellee is without question a "holder in due course" under the pertinent provisions of the Negotiable Instruments Law. A holder in due course is defined *inter alia* as a holder who "at the time (the instrument) was negotiated to him . . . had no notice of any . . . defect in the title of the person negotiating (the instrument)" (Negotiable Instruments Law, Section 52.) "To constitute

Appellants suggest as a test that there should be no necessity to look beyond the face of the instrument for the purpose of ascertaining the drawer's intent; they also advert to the fact that equitable considerations are discussed in various opinions in the impostor cases (Op. Br. pp. 31, 33). We fail to see how either of these statements aids their cause or how such can turn this, a clear impostor case, into a forgery case. Rather such statements completely beg the issue. The court in the *Cohen* case,¹⁴ said, with respect to what appears by the instrument, "only in that way can merchants rely upon the rule that a negotiable instrument in the hands of an innocent purchaser will be paid according to its tenor and *intent* and will not be paid otherwise." (Emphasis added; 10 N. E. 2d at p. 463.) We submit that what appears within the confines of the four corners of these checks are the *genuine* endorsements of the intended payees. What signatures might these endorsements be compared with so that it could, under this test, be determined otherwise? Under this test how would appellant show the endorsements as

notice of . . . defect in the title of the person negotiating the same, the person to whom it is negotiated must have had actual knowledge of the . . . defect or knowledge of such facts that his action in taking the instrument amounted to bad faith." (Negotiable Instruments Law, Section 56.) It is clear of course that appellee had no notice of any defect in the title of the persons who negotiated the checks in question to appellee. [Stipulation of Facts, R. 21-25; Findings of Fact, R. 26-30.] Fraud in the inducement by which each impostor herein obtained a check from the Government [Statement of the Case, pp. 1-2, *supra*; Findings of Fact, *supra*, R. 26-30] rendered his title to the check defective (Negotiable Instruments Law, Section 55); but such constitutes only a personal defense available to the drawer against the impostor—payee and is of *no avail* against appellee, a holder in due course, who "holds the instrument free from any defect of title of prior parties, and free from defenses available to prior parties among themselves, and (who) may enforce payment of the instrument for the full amount thereof against all parties liable thereon." (Negotiable Instruments Law, Section 57.)

¹⁴275 N. Y. 399, 10 N. E. 2d 457 (1937).

forgeries? As to appellant's other suggestion, until *forgery* is established with respect to these endorsements the equities inherent and in favor of appellee only provide added strings to the bow. These suggestions, we submit, only point up the lack of merit in appellant's argument.

Appellant advances a lengthy argument (Op. Br. pp. 33-47) to the effect that in their view the impostor rule has been actually applied only where either (1) the casher has upon inquiry of the drawer been advised to pay the impostor; or (2) the impostor would have been identified as the payee by the drawer if inquiry had been made by the casher. In the first situation appellant says "The drawer is clearly precluded from asserting forgeries" (Op. Br. p. 38). In the second situation they say, "It is much less speculative to assume that the drawer would have identified the impostor as the payee for the casher" than to ascertain the drawer's actual or subjective intent because such is "artificial and arbitrary" (Op. Br. p. 41).

Aside from the fact that in this case the drawer's actual intent is an established fact, as a matter of law, and is neither artificial nor arbitrary (see pp. 8-12, *supra*), appellant's cases do not substantiate that their reasoning has ever been the basis for the application of the impostor rule in any case. In no case we have read has it even been hinted that a requisite or condition for the application of the impostor rule was either of the foregoing circumstances to which appellant alludes. This is of course not surprising because appellant's argument erroneously *assumes* that the endorsements were forgeries (the sole issue at bar) and from this false assumption they proceed to argue that under the facts of this case the drawer

should not be "precluded from asserting forgeries" (Op. Br. p. 38). As a matter of Federal law, whether an endorsement is a forgery is *not* the same question as whether or not a drawer will be precluded from asserting a forgery, appellant's protestations to the contrary notwithstanding. (*United States v. First Natl. Bank of Albuquerque, supra*, 131 F. 2d at 977 and cases cited p. 8, *supra*.)

Furthermore what transpires between the drawer and the casher or what *might have transpired* (Op. Br. pp. 39-42) can have no effect of itself on the question of whether or not the casher has fulfilled his contract of guaranty. Of course, some affirmative act by the drawer may work an estoppel against him even if the contract was not fulfilled as in a forgery case. This is the situation to which Section 23 of the Negotiable Instruments Law¹⁵ is addressed. But the crux of the matter herein surrounds that point in time when occurs the issuance and delivery of the checks and the intention of the drawer at that time. Thus, what may or *may not* take place thereafter cannot be relevant to nor change the prior circumstances under which the checks were issued and delivered, which circumstances are determinative of the issue herein.

¹⁵Section 23 of the Negotiable Instruments Law is as follows:

"Sec. 23 (*Forged Signature; Effect of.*) When a signature is forged or made without the authority of the person whose signature it purports to be, it is wholly inoperative, and no right to retain the instrument, or to give a discharge therefor, or to enforce payment thereof against any party thereto, can be acquired through or under such signature, unless the party against whom it is sought to enforce such right, is precluded from setting up the forgery or want of authority."

B. The Policy Behind the Impostor Rule and the Law of Negotiable Instruments Generally Strongly Support the Application of the Impostor Rule to the Facts of This Case.

Appellant argues (Op. Br. pp. 22-27) that the policy of the *National Metropolitan* case renders that case controlling herein. Aside from the fact the *National Metropolitan* case is wholly inapplicable both in principle and on its facts (see Point II, pp. 18-25, *infra*), we submit the policies behind the impostor rule and the law of negotiable instruments generally are parallel and that the latter policy can be only served in cases such as the one at bar by applying the impostor rule.

The cases applying the impostor rule have repeatedly pointed out that to not apply the rule would destroy the free circulation and negotiability of Government commercial paper. (See *United States v. Continental-American Bank & Tr. Co.*, 175 F. 2d 271, 272 (C. A. 5, 1949), cert. den. 338 U. S. 870 (1949); *United States v. First Natl. Bank of Albuquerque*, 131 F. 2d 985, 989 (C. A. 10, 1942), cert. den. 318 U. S. 774 (1943); *United States v. Union Tr. Co.*, 139 Fed. Supp. 819, 923 (D. C. Md., 1956). See also *Atlantic Natl. Bank of Jacksonville v. United States*, 250 F. 2d 114, 118 (C. A. 5, 1957); *Dartmouth Natl. Bank of Hanover v. Keene Natl. Bank*, 99 N. H. 458, 115 A. 2d 316, 318, 319 (1955); and see Point I, A, pp. 12-13, *supra*.) The policy of free negotiability of Government paper was clearly not rejected in the *National Metropolitan* case as a valid policy criterion in support of the application of the impostor rule (*cf.* Op. Br. pp. 34-35). That case is not pertinent to this or factually analogous cases as the impostor rule was not even raised or discussed. (See Point II, A, p. 19, *infra*.) Furthermore, it has been pointed out by the Supreme Court that

the Government is not a privileged suitor, but its rights are identical to those of private individuals. (See Point I, pp. 5-6, *supra*.) The Court in so holding recognized that “to perform adequately its basic function such paper must be freely transferable. . . .” (*United States v. Union Trust Co.*, *supra*, 139 Fed. Supp. 823.) The Government “does business on business terms . . . [and] is not excepted from the general rule by the largeness of its dealings and its having to employ agents. . . .” (*United States v. Natl. Exch. Bank*, 270 U. S. 527, 534-535, 70 L. Ed. 717, 718 (1926); *Clearfield Tr. Co. v. United States*, 318 U. S. 363, 369, 87 L. Ed. 838, 843 (1943).)¹⁶ Its responsibility being no more and no less than that of any other drawer the free circulation of its paper should obviously not be impeded where other commercial paper is not by placing upon banks unreasonable burdens against which, as a practical matter, they cannot protect themselves short of a complete embargo on Government paper. (*United States v. Continental-American Bank & Tr. Co.*, *supra*, 175 F. 2d at p. 118.) The Government admits that they, as a practical matter, can do nothing to ease the situation of the banks with respect to its commercial paper even if called upon to do so.¹⁷ The plain fact is the Government is asking this Court to hold that appellee

¹⁶The Government, however, begs this court to except it from its responsibilities because of the large volume of its dealings with respect to tax refunds notwithstanding the clear admonition by the United States Supreme Court above that it will not be so excused. See Op. Br. Note 10, p. 25.

¹⁷“If the disbursing agent had been asked to identify the physical person claiming to be one of the named payees he would have been unable to do so inasmuch as his knowledge about the payee was limited to the information that appeared on the fraudulent tax return—namely, the payee’s name and address as it appeared on the face of the check and also the name and address of the supposed employer. [R. 28-29, R. 20.]” (Op. Br. 26.)

guarantee that Government checks are honestly procured in addition to their present guaranty that the person to whom the check was issued endorsed it. This is indeed a novel suggestion. But such is not any part of the bank's contract. (See *United States v. Continental-American Bank & Tr. Co.*, *supra*, 175 F. 2d at p. 272 and other cases cited, p. 8, *supra*); rather it is expressly part of the *drawer's* contract who "by drawing the instrument *admits* the existence of the *payee* and his then *capacity to endorse*; and *engages* that on due presentment the instrument will be accepted or paid, or both, according to its tenor. . . ." (Negotiable Instruments Law, Sec. 61.) (Emphasis added.)

II.

The Decisions in the National Metropolitan and Related Cases Relied Upon by the Government Are Not Pertinent to This Case Neither in Principle nor on Their Facts.

A. The Principles of the National Metropolitan and Related Cases Are Not Pertinent to the Case at Bar and Analogous Cases.

The Government in its persistent refusal to recognize the difference between a forger and an impostor, relies heavily upon the decision in *National Metropolitan Bank v. United States*, 323 U. S. 454 (1945) (Op. Br. pp. 12-27, 45-47). The Supreme Court however admonished in unmistakable terms the scope of its holding in that case:

"We do hold that negligence of a drawer-drawee in failing to discover fraud prior to a guaranty of the genuineness of prior endorsements does not absolve the guarantor from liability in cases *where the prior endorsements have been forged*." (323 U. S. at p. 459.) (Emphasis added.)

The Court's decision was clearly premised on the fact of forged endorsements. Furthermore the cases expressly drawn upon by the Court¹⁸ in the *National Metropolitan* case were both clear forgery cases. That all these cases were forgery cases and thus wholly inapplicable to an impostor case has been patiently pointed out on several occasions by the Fifth Circuit. (See *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114, 118 (C. A. 5, 1957); *United States v. Continental-American Bank & Tr. Co.*, 175 F. 2d 271, 272 (C. A. 5, 1949), cert. den. 338 U. S. 870 (1949); see also, *United States v. Union Trust Co.*, 139 Fed. Supp. 819, 823-824 (D. C. Md., 1956).) It was equally pointed out by the court that in all the Government cases above referred to the impostor rule was not even raised let alone mentioned or discussed. This is not surprising for the obvious reason that a forgery case and an impostor case are inherently mutually exclusive of one another. The *National Metropolitan* and related cases, being cases premised on the fact of forged endorsements, cannot have any bearing whatever on this case which we have demonstrated to be a classic case for the application of the impostor rule (see Point I, A, pp. 6-15, *supra*). Furthermore, the United State Supreme Court has on two occasions made this very clear.

The Supreme Court of the United States decided the *National Metropolitan* case in 1945. Prior thereto, in 1943, the Court denied a writ of certiorari in *United States v. First Natl. Bank of Albuquerque*, *supra*.¹⁹ Subsequent

¹⁸*United States v. Natl. Exch. Bank of Providence*, 214 U. S. 302 (1909); *Clearfield Trust Co. v. United States*, 318 U. S. 363 (1943).

¹⁹131 F. 2d 985 (C. A. 10, 1942), cert. den. 318 U. S. 774, denial by the Court of writ of certiorari in this case occurred 14 days after the Court rendered its decision in *Clearfield Trust Co. v. United States*, 318 U. S. 363 (1943).

to its decision in the *National Metropolitan* case, the Court in 1949 denied a writ of certiorari in *United States v. Continental-American Bank & Tr. Co., supra*.²⁰ On both appeals in the *Continental-American Bank* case and on the appeal in the *First Natl. Bank of Albuquerque* case the impostor rule was applied by the Appellate Courts and the loss placed on the Government. The "particular facts" of these cases²¹ painted a picture indistinguishable from the case at bar.

In both *Continental-American Bank* cases the Government strenuously argued that the *National Metropolitan*

²⁰175 F. 2d 271 (C. A. 5, 1949), cert. den. 338 U. S. 870; same case on prior appeal to Fifth Circuit, 161 F. 2d 935 (C. A. 5, 1942).

²¹See Point I, A, p. 7, *supra*. Brief summaries of the particular facts of these two cases are as follows:

In *First National Bank of Albuquerque* the veterans bureau issued to Harry T. Goulding, a World War veteran, an adjusted service certificate pursuant to the World War Adjusted Compensation Act. By some means Harry Wesley Ott got possession of said certificate and representing himself to be Harry T. Goulding presented the certificate together with a loan application to the veterans bureau. As required by prescribed forms and regulations Ott had previously secured an identification of himself as Harry T. Goulding from a notary public. The veterans facility consummated the loan and issued a check payable to the order of Harry T. Goulding and delivered same by mail addressed to Harry T. Goulding at a hotel where Ott was registered under said name. Ott presented the check to the First National Bank of Albuquerque for payment and the bank cashed the check and delivered the proceeds on the endorsement of Harry T. Goulding after some checking was done as to Ott's assumed identity. The bank endorsed the check "Prior endorsements guaranteed" and it was negotiated and eventually paid by a branch of the Federal Reserve. Thereafter the Government discovered the fraud and demanded reclamation from the bank which was refused. The trial court applied the impostor rule and the Government appealed (131 F. 2d at pp. 986-987).

In *United States v. Continental-American Bank & Trust Company* one Bertha Smith assumed the name of Beulah Mitchell Gibbs, the widow of a deceased soldier, and impersonating said widow through applications and affidavits in correspondence with the Vet-

case controlled, indeed, on the second appeal of that case²² that the prior decision was wholly inconsistent and contrary to the decision in the *National Metropolitan* case and the cases relied on therein.²³ The Fifth Circuit held in both instances that the *National Metropolitan* case and the cases relied on therein were not only not controlling, but were not pertinent involving as they did common forgeries, not impostors. Similarly in the *First National Bank of Albuquerque* case the Government asserted that the transaction there, as a matter of federal law, should

erans Administration secured therefrom allowances as said widow in pursuance of which a series of checks were issued and delivered by the Veterans Administration to her. She endorsed said checks in her assumed name of Beulah Mitchell Gibbs and the bank assuming her so to be cashed the same. The defendant banks endorsed the checks "Prior endorsements guaranteed", and they were paid by the Federal Reserve Bank. The trial court applied the impostor rule and the Government appealed (175 F. 2d at pp. 271-272).

In both these cases, as in the case at bar, the Government was deceived into dealing with an actual impostor under an assumed name, who was believed to be a valid claimant, and in consummation of said dealing issued and delivered checks intended for the very person with whom it had dealt and with the intent that such checks be paid on their endorsements. The only factual difference between these two cases and the case at bar is that in those two cases the name assumed by the impostors was the name of an actual person with a valid claim against the Government, while in the case at bar the name assumed was a fictitious name. But as we have pointed out, the existence or non-existence of a person of a name assumed and designated in the instrument as the payee cannot have any bearing on the drawer's intent. See Point I-A, pp. 9, 12, *supra*. This factual difference is thus wholly immaterial in the determination of the issue herein in the same manner as it is immaterial whether the dealings are carried on in person or by correspondence. See Point I, p. 6, *supra*. Furthermore, as only one intent can reasonably be ascribed to the Government in this case as opposed to a dual intent present in many impostor situations, this case is an even stronger case on its facts than are the two cases above for the application of the impostor rule. See Note 8 at pp. 8-9, *supra*.

²²See Note 20, p. 20, *supra*.

²³See 175 F. 2d at p. 271.

be held a forgery, relying on *United States v. National Exchange Bank of Providence*, 214 U. S. 302 (1909).²⁴ This was also one of the cases relied upon by the Government in both *Continental-American Bank* cases, *supra*.

Of paramount significance however is the fact that in its petitions in the *First National Bank of Albuquerque* case and in the later *Continental-American Bank* case for a writ of certiorari the Government expressly based its application for the writ, in both instances, on the sole ground that the impostor rule had been erroneously applied and the decision sought to be reviewed was inconsistent and contrary to the forgery cases urged by the Government to be controlling;²⁵ in the *Continental-American Bank* case, that the decision was inconsistent and contrary to the Court's decision in the *National Metropolitan* case argued

²⁴See 131 F. 2d at p. 988.

²⁵We have had examined the Government's petitions for writ of certiorari in both cases appearing above. In the case of *United States v. First Natl. Bank of Albuquerque*, in which certiorari was denied, the Government's statement of the question was as follows: "Respondent, the presenting Bank, received payments from the United States on a check which had been issued as a loan on a veteran's adjusted service certificate, and upon which the payee's endorsement was forged. Respondent guaranteed prior endorsements. Does the so-called impostor rule apply to prevent recovery by the United States?" It was pointed out in opposition to the petition of the Government that the statement that the endorsement was forged was begging the question and inaccurate. Under reasons for granting the writ of certiorari the Government pointed out that there was a conflict with the *National Exchange Bank of Providence* case in the Supreme Court and also with a number of Court of Appeals cases including the case of *District Natl. Bank v. Washington Loan & Tr. Co.*, 65 F. 2d 831 (C. A. D. C. 1933). In the opposition it was brought out that the *National Exchange Bank of Providence* case was a forgery case and had no application to the case at bar.

to be controlling.²⁶ By the Court's action in denying writs of certiorari on both these occasions, and particularly with respect to the later *Continental-American Bank* case, it is beyond serious argument that the Supreme Court in those cases accepted as a matter of federal law the application of the impostor rule thereto and necessarily with respect to analogous cases such as the one at bar; and further that application of the impostor rule in such cases is wholly consistent with the principle of the *National Metropolitan* and other related forgery cases which are perforce inapplicable thereto. No other construction of the Court's actions is tenable. (Compare Appellant's Statement, Op. Br., Note 15, p. 28.)

²⁶In *United States v. Continental-American Bank & Tr. Co.*, in which certiorari was denied, the question of the application of the impostor rule was definitely the primary question. Under the heading "Questions Presented" there appears the following:

"3. Whether the so-called impostor rule can apply at all to a check issued by the United States."

The Government relied heavily on the *National Metropolitan Bank* case and as well on the *National Exchange Bank of Providence*. The Government, under the heading of "Reasons for Granting Writ of Certiorari" argued that (a) the Court refused to follow the controlling decisions of the Supreme Court in the *National Metropolitan Bank* and *National Exchange Bank of Providence* cases; (b) that the so-called impostor rule has no application in the case of government checks. In opposition it was pointed out that the impostor rule has become an established precedent in our jurisprudence regarding liability on the endorsing banks and distinguished the *National Metropolitan Bank* case as "a plain forgery and is therefore irrelevant to a consideration of the question, presented by the instant petition." To all of the above contentions urged so strenuously by the Government, the Supreme Court denied certiorari—an effective answer to the Government herein.

B. The National Metropolitan and Related Cases Are Distinguishable From the Case at Bar on Their Facts as Well as on Principle.

Aside from the fact that the principles of the *National Metropolitan* and related cases have no bearing on the case at bar, these cases relied upon so heavily by the Government are as well distinguishable on their facts in one very material respect. Most of the Government's cases, at least the important ones, involve the situation of an employee, who, alone, is in a position to, and does, perpetrate a fraud on his master—in most instances the Government.²⁷ In this fact situation the impostor rule, when applied, may perhaps be but a rationalization adopted to reach a desired result, but nonetheless a correct result. It may be true that in such cases it is not realistic to say that the checks were delivered by the Government to its own employee believing him to be the person whose name he had assumed, the name designated as the payee, and intending him to be the person on whose endorsement the checks would be paid.²⁸ It is perhaps somewhat difficult in the fraudulent employee case to attribute to the Government as an entity any actual or specific intent to deal with some actual person claiming under some name to be entitled to money from the Government, or that the

²⁷See *National Metropolitan Bank v. United States*, 323 U. S. 454, 89 L. Ed. 383; *Washington Loan & Trust Co. v. United States*, 134 F. 2d 59 (C. A. D. C., 1943). The facts of these cases are summarized in appellant's Opening Brief at pages 13-16.

²⁸See *Fidelity & Deposit Co. of Md. v. Union Tr. Co.*, 129 F. 2d 1006, 1009 (C. A. 2, 1942), affirming 37 Fed. Supp. 3 (D. C. N. Y., 1941); *Hartford Acc. & Indem. Co. v. Middletown Natl. Bank*, 126 Conn. 179 (10 A. 2d 604, 1939), and *United States v. Union Tr. Co.*, 139 Fed. Supp. 819 (D. C. Md., 1956), which point up the importance of this factual difference between the type of case at bar and those relied upon by the Government involving a fraudulent employee with regard to the proper application of the impostor rule.

check issued is intended to be paid on any such person's endorsement—the Government official who issues the check obviously has not had any dealings in the matter except with his fellow servant of the Government to whom he delivers the checks. However, we do not suggest that it follows from the foregoing that in the fraudulent employee case the result is necessarily a forged endorsement. Although such a case is not the case at bar and we do not wish or intend here to argue a different case than is involved herein, we may suggest the endorsements in the employee situation should also be held to be genuine for the reason that the checks are *bearer paper*.²⁹

²⁹In the fraudulent employee or "insider" situation the federal rule we have suggested above as being applicable thereto is not original with us, but has indeed been suggested in *Washington Loan & Tr. Co. v. United States*, 134 F. 2d 59, 63-64 (C. A. D. C., 1943), a case relied upon by the Government herein. The adoption of such a rule as the federal rule to govern the employee cases is, in effect, the adoption of Section 9(3) of the Negotiable Instruments Law *as amended*, which amended portion of said section has been expressly adopted by statute in at least seventeen states. The effect of Section 9(3), *as amended*, is that an instrument is bearer paper when an employee or agent has supplied the name of a payee, to the person making it payable, which name is fictitious or of a non-existent person, or with the same effect, the name of a living person not intended to have any interest therein; such instrument is then payable to the order of a fictitious or non-existing person and is bearer paper. Such is the operation of this section and perhaps supplies a better reason for reaching a correct result than is the case if the impostor rule is applied. For an excellent illustration of how this section, if adopted as the applicable federal rule in fraudulent employee situations would work, see *United States v. Bank of Amer., NT&SA*, 47 Fed. Supp. 279, 280-281 (D. C. Cal. Dist. Ct., 1942). This particular case reached this result as a possible alternative ground for the decision under California law even before California expressly adopted the amendment to Section 9(3) of the Negotiable Instruments Law in 1945. (The 17 states referred to above as having adopted the amended version of Section 9(3) of the Negotiable Instruments Law are: Alabama, Arizona, Arkansas, California, Georgia, Idaho, Illinois, Louisiana, Massachusetts, Minnesota, Mississippi, Montana, New Mexico, North Carolina, Oregon, Utah and Wisconsin. See Statutory Material for Cases on Commercial and Investment Paper, 2d Ed., Roscoe Steffen, Professor of Law, University of Chicago, 1954, p. 7.

Conclusion.

To summarize the argument at this point would be to repeat the summary which preceded it. For the reasons which we have set forth the judgment of the Court below should be affirmed.

Respectfully submitted,

ROSS C. FISHER,

KNOX FARRAND,

STEPHEN M. FARRAND,

DOUGLAS T. FOSTER,

Attorneys for Appellee.

FARRAND, FISHER & FARRAND,

Of Counsel.

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Nos. 16164 and 16165

**In the United States Court of Appeals
for the Ninth Circuit**

UNITED STATES OF AMERICA, APPELLANT,

v.

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION,
APPELLEE

UNITED STATES OF AMERICA, APPELLANT,

v.

SECURITY-FIRST NATIONAL BANK, APPELLEE

ON APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL
DIVISION

BRIEF FOR THE UNITED STATES

GEORGE COCHRAN DOUB,

Assistant Attorney General,

LAUGHLIN E. WATERS,

United States Attorney,

SAMUEL D. SLADE,

PETER H. SCHIFF,

Attorneys,

Department of Justice,

Washington 25, D.C.

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**In the United States Court of Appeals
for the Ninth Circuit**

No. 16164

UNITED STATES OF AMERICA, APPELLANT,

v.

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION,
APPELLEE

No. 16165

UNITED STATES OF AMERICA, APPELLANT,

v.

SECURITY-FIRST NATIONAL BANK, APPELLEE

*ON APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL
DIVISION*

BRIEF FOR THE UNITED STATES ¹

JURISDICTIONAL STATEMENT

On August 25, 1955, the United States instituted separate suits against appellees to recover \$1,341.08, plus interest from Bank of America and \$9,719.15, plus

¹ An order by the Chief Judge filed on December 10, 1958, granted the Government's motion for permission to file a single brief for the above-captioned appeals.

interest, from the Security-First National Bank, which the Treasurer of the United States had paid to appellees upon 7 and 58 checks, respectively, bearing allegedly forged signatures of the payees, who in each instance were fictitious or nonexistent (R. 3-9; R'. 3-14).² The jurisdiction of the district court over the actions rested upon 28 U.S.C. 1345. On June 3, 1958, the United States District Court for the Southern District of California, Central Division, entered judgments against the United States (R. 18-20; R'. 30-31). On July 25, 1958, the United States filed notices of appeal (R. 22; R'. 31-32). The jurisdiction of this Court rests upon 28 U.S.C. 1291.

STATEMENT

The facts found by the court below were stipulated by the parties and may be summarized as follows:

a. *The Security-First National Bank* case—During the year 1949 and prior thereto, Arthur H. Lange, Aline Lange Lee, a real estate broker of Los Angeles, and her son and other members of her family³ entered

² "R. —" refers to the record in the *Bank of America* case, No. 16164; while "R.'" refers to the record in the *Security-First National Bank* case, No. 16165.

³ In August, 1950, Aline Lange Lee and several members of her family, Augustus C. Flemmings, Jr., Harold R. Washington, Celeste C. Flemmings, Dorothy Mae Flemmings, and Theodore W. Lange, Jr., were convicted on pleas of *nolo contendere* and sentenced for conspiracy to defraud the Government with respect to false claims pertaining to the scheme of seeking the return of tax refunds alleged to be due on the basis of fictitious and fraudulent representations. S.D. Calif., Cr. Nos. 21012, 21013, 21014, 21015, 21016, 21018, respectively. Tony R. DeHart, another member of Aline Lange Lee's family, was convicted on a plea of guilty and sentenced for the same conspiracy on February 27, 1950, S.D. Calif., Cr. No. 21017.

into a scheme to defraud the United States pursuant to which they caused to be prepared fictitious "W-2" forms concerning salary and tax withheld by alleged employers and then filed income tax returns with the "W-2" forms attached in the names of the fictitious tax payers (R'. 28).⁴ These returns and forms were prepared in such a way as to indicate that a refund on income tax was due and payable to the respective fictitious persons whose names appeared on the fraudulent returns (R'. 22). The names used on the fraudulent "W-2" forms and tax returns were fictitious in each instance (R'. 28). These income tax returns and accompanying withholding statements were filed with the District Director of Internal Revenue (R'. 28). The United States Treasury upon receipt of these returns issued each of the checks sued upon without first checking the records to determine whether the taxes claimed to have been paid had in fact been withheld or without otherwise making any investigation with respect to the tax returns or withholding statements (R'. 28-29).⁵ The refund checks were drawn and made payable to the various fictitious payees and were mailed to the addresses given in the income tax returns (R'. 29). Each of the checks was endorsed by

⁴ As the court found, the Internal Revenue laws of the United States at the time involved in this case and at present provide that employees should receive at the end of each calendar year "W-2" forms from each employer, indicating thereon the amount of income paid by the employer to the employee, the amount of Social Security withheld and the amount of income tax withheld. The "W-2" form is filed by the employee together with his income tax return. If the amount of income tax withheld exceeds the amount of tax the employee must pay for the year, the employee indicates on his return that the excess money is either to be applied to the ensuing year's income taxes or is to be refunded to the employee. (R'. 27-28).

⁵ See fn. 10, *infra*, p. 25.

the person who had signed the tax return showing the overpayment for which a Treasury check was issued to a fictitiously named payee (R'. 29). As may be seen from an inspection of the checks, on 37 of the 58 checks involved in this case the second endorsement was made by the Aline L. Lee Realty Company, 15 by Tony R. DeHart and one each by Harold Washington and Celeste Flemmings.⁶ After second endorsements had been subscribed on all of the checks, they were cashed by appellee bank in the course of business (R'. 29). The checks were thereafter endorsed by the bank in the normal course of business with the statement thereon "All prior endorsements guaranteed" and were presented for payment and paid by the Government's fiscal agent (R'. 29). Upon discovery of the fraud, the United States gave notice thereof to the appellee bank with respect to all of the checks involved, demanding repayment in the amount of \$9,719.15 which the bank has refused to make (R'. 29-30). The district court held that the appellee bank was not liable to the United States upon its guarantee of prior endorsements because of the view that the endorsements of the payees' names were not forged (R'. 30).

b. *The Bank of America case*—This case involves 7 fraudulently procured tax refund checks issued to 7 different fictitious or nonexistent payees (R. 13, 19-20). These checks were issued on the basis of fraudulent income tax returns filed with the United States in the names of the payees on the checks in question (R. 20).

⁶ The checks reproduced at pp. 11, 12 and 13 of the record (R'.) in this case are representative of these second endorsements. Thus, at least 54 of the second endorsements were made by or on behalf of Aline Lange Lee and her family.

Each of the income tax returns showed that the fictitious taxpayer was entitled to a refund (R. 20). Upon receipt of the false and fraudulent returns, and relying solely on them, the United States issued the 7 checks in question and mailed them to the names and addresses listed in the false tax returns (R. 20). Each of the checks was endorsed by the person who had signed the tax return on the basis of which the refund check was issued (R. 20). Prior to the time that the checks were deposited in appellee bank at least a second endorsement was added after the endorsement in the payee's name.⁷ Thereafter, the bank in due course endorsed the checks "All prior endorsements guaranteed" and presented them for payment which was made by the Government's fiscal agent (R. 21). Upon discovery of the fraud, the United States gave notice thereof to the appellee bank in October 1949 and January 1950 and demanded return of the amount of the checks, a total of \$1,341.08 (R. 21). Appellee has refused to make such payment (R. 21). The district court held that the "impostor rule" was applicable in this case and that the endorsements of the payees' names on the checks were not forgeries so that the United States was not allowed to recover (R. 21).

SPECIFICATION OF ERRORS

(1) In each case the district court erred in holding that appellee bank was not liable to the United States upon its guarantees of prior endorsements.

⁷ This may be seen upon inspection of the checks, one of which has been reproduced in the printed record (R. 9). The names of Tony R. DeHart and Dorothy Mae Flemmings, two of the conspirators involved in the *Security-First National Bank* case, fn. 3, *supra*, p. 2, appear on 3 of the checks.

(2) In each case the district court erred in entering judgment for appellee bank.

(3) The district court in the *Bank of America* case erred in holding that the "impostor rule" is applicable to the facts of that case.

SUMMARY OF ARGUMENT

There is unquestioned here the basic rule that the drawer who pays a check upon a forged endorsement of a payee may recover from one who receives payment, for such payment has been made in mistaken reliance upon the representation of the presenter that he has title. The court below, apparently on the basis of the decision in *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C.A. 5, 1957) which related to an almost identical fact situation, avoided this rule by holding that the endorsements of the payees' names, which were fictitious or nonexistent, by the persons who had fraudulently induced the Government to issue the checks upon the basis of false and fraudulent income tax returns were not forgeries. The United States contends that the impostor rule, upon which the court relied, is not applicable to the facts of the present cases.

In Point I we show that in all essential respects these cases cannot be distinguished from *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), and related cases. Those cases make it clear that even the drawer's negligence in failing to prevent or discover fraud in the issuance of checks does not in itself afford a reason for relieving a presenting bank of liability for breach of a guaranty of prior endorsements since a drawer or drawer-drawee, such as United States here, owes no duty to persons volunteering to cash or collect

checks to protect them against the fraudulent issuance of a check or the consequent forgery of the payee's signature thereon. The rule of *National Metropolitan Bank* that the drawer owes no duty to the cashing or presenting bank is grounded on policy considerations which are equally applicable to the facts of the present cases. A bank need not accept a check, and before it does it can assure itself of the validity of the instrument or the responsibility of the endorser who tenders it. As a matter of banking practice, the cashing bank is not concerned with the circumstances of a check's issuance or delivery which are not known to it and can safely cash a check only on the assumption that one with whom it deals will make it good if necessary. Consequently, to afford the bank a defense against repayment because of circumstances which play no part in its determination to take the check would give it a windfall. And as recognized by the Supreme Court in *National Metropolitan Bank*, a contrary rule would diminish the desirability of negotiable paper to drawers. While recovery may be precluded when the drawer's conduct affirmatively misleads, or perhaps even if it could mislead, a person into cashing a check for a swindler, such circumstances have not been shown to exist in the present cases. The appellee banks were in no way apprised of any dealings between the alleged impostors and the Government and, indeed, cashed all of the checks only after second endorsements had been added, in most instances by the defrauders themselves. Moreover, if an inquiry had been made as to the identity of the payee either by appellee banks or any of the few prior bona fide endorsers, there is nothing to even suggest that any act of the United States or its agents

would, or could have, misled an inquirer into believing that any of the defrauders were the named payees.

In Point II we demonstrate that the so-called impostor rule may not properly be applied to the facts of these cases. The United States contends that the impostor rule, in imposing the loss resulting from the successive frauds of the same person on the drawer, may be applied as a matter of federal law only if the result is compatible with the Supreme Court's *National Metropolitan Bank* case and affords a rational basis for decision. The rule has generally been applied for a combination of reasons, many of which do not provide either a logical or appropriate basis for reliance on the rule. Thus, the actual or dominant intent criterion, frequently referred to as the principal ground for the rule, is demonstrably artificial, illogical and irrational and hence an unsatisfactory standard. Moreover, it is not apparent why it is necessary to look beyond the face of the instrument to determine the drawer's intent in the impostor cases and not otherwise. A number of other reasons frequently used to explain the impostor rule are necessarily inconsistent with *National Metropolitan Bank* because they impose the loss on the drawer primarily because he was negligent in permitting himself to be defrauded and should bear the loss because he first set in motion the machinery which ultimately resulted in the loss, even though the drawer's conduct did not mislead any person into cashing the instrument.

We recognize, however, that an analysis of the impostor cases which place the loss on the drawer does disclose a policy basis underlying those cases distinguishing them from the rule of *National Metropolitan*

Bank. For the rule has generally been applied against the drawer only in those instances where it has been felt that the drawer's conduct has imposed an unreasonable burden of inquiry with respect to determining the identity of the payee on the first bona fide transferee of the instrument from the impostor. In many cases, particularly those in which the dealings between the drawer and impostor have been by correspondence only, the cashier has actually known of the dealings between the drawer and impostor leading to the issuance and delivery of the instrument. This element is neither shown nor claimed to be present here. In other impostor cases it has been assumed that if the cashier had made even a most careful inquiry about the payee's identity, the impostor would have been identified as the payee and this identification would have been made possible because of some conduct by the drawer other than the mere issuance of the instrument. Here, however, there is no basis in the record for assuming that any conduct of the United States or of its agents could have misled the cashing banks into believing that the impostors were the payees even if they had attempted to identify the impostor. For neither the United States nor its agents could have identified any particular individual as the named payees. And in addition it is not shown that the alleged impostors had assumed the identities of the payees except for the purpose of making unwitnessed signatures on the fraudulent tax returns and later the endorsements of the payees' names so that an investigation as to the identity of the payees within the community to which the checks were sent would have disclosed the impersonations and the fraud.

ARGUMENT

Certain undisputed principles underlie all suits to recover payments made upon a check bearing a forged endorsement. The drawer who calls upon the drawee to pay to the order of a named payee expects that payment will be made only as ordered; if the payee's endorsement is forged and the instrument is paid by the drawee to the forger or to an innocent transferee, the drawee has not paid according to the directions of his drawer and may charge the latter's account. *Continental National Bank & Trust Co. v. Olney National Bank*, 33 F. 2d 437 (C.A. 7, 1929). See *First National Bank v. Whitman*, 94 U. S. 343, 346-347 (1876); *Leather Manufacturers' Bank v. Merchants' Bank*, 128 U.S. 26, 34 (1888); Brannan, *Negotiable Instruments Law* (7th ed., 1948), p. 445. The drawee, who paid the check in reliance upon the presenter's express or implied representation that he could give a valid discharge because title to the instrument had properly been vested in him, may in turn recover from the presenter the money thus paid without consideration, even though the latter is innocent of wrong. *Leather Manufacturers' Bank v. Merchants' Bank*, 128 U.S. 26 (1888); *Security Savings Bank v. First National Bank*, 106 F. 2d 542 (C.A. 6, 1939); Brannan, *Negotiable Instruments Law* (7th ed., 1948), pp. 447-451. And this right of recovery against the presenter exists where the drawer and drawee are the same, for example, two agencies of the United States, as is the case here. *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945); *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943).

The applicability of these unchallenged rules to these cases was avoided by the determination of the court below that the endorsements of the payees' names on the checks involved here were not forgeries because of the so-called impostor rule. The court did not file an opinion in either case. Presumably the court regarded the split decision of the Court of Appeals for the Fifth Circuit in *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (1957), which applied the impostor rule to facts indistinguishable from those involved here, as controlling, or at least persuasive, authority. There, Howard, a United States Deputy Tax Collector, prepared false "W-2" forms and accompanying tax returns which claimed refunds in the names of 109 nonexistent persons. As a result, refund checks were issued to the persons named on the tax returns and mailed to the addresses indicated on the tax returns. The checks were then obtained, as here, by the defrauder in an unexplained manner. He thereupon endorsed each of the checks in the name of the payee and added a second fictitious endorsement on all but three of the checks before depositing them in various bank accounts. The majority, in reversing the district ^{court} judgment which had deemed *National Metropolitan Bank* to be controlling, held that the United States must have intended Howard to be the payee because he was the one who had submitted the papers on the basis of which the refund checks were issued and also that the "necessity for unfettered circulation of the Government's negotiable paper" would forbid placing the loss on the banks who had guaranteed the genuineness of prior endorsements. 250 F. 2d at 118. Judge Rives dissented. It is our position that

Atlantic National Bank was incorrectly decided and should not be followed by this Court.

I

The Rule of *National Metropolitan Bank v. United States*, 323 U. S. 454, Is Controlling and Requires a Reversal of the Judgments Below

The decision below, in holding that the endorsements of the payees' names were not forgeries, is inconsistent with the controlling decision of the Supreme Court in *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), and the decisions in the Courts of Appeals for the District of Columbia and Second Circuits in *Washington Loan & Trust Co. v. United States*, 134 F. 2d 59 (C.A.D.C., 1943), and *Onondaga County Savings Bank v. United States*, 64 Fed. 703 (C.A. 2, 1894). These cases have clearly established as the federal rule that where the Government is induced by fraud to issue a check to a fictitious or nonexistent payee or to a real person who has no knowledge of the fraud, and the endorsement in the name of the designated payee is made by the person fraudulently inducing the issuance of the check, the endorsers will not be relieved of their contracts guaranteeing the genuineness of prior endorsements solely on the ground that the issuance of the check was procured through fraudulent devices which the drawer had failed to detect prior to the issuance and delivery of the check. While we recognize that recovery may be precluded when the Government's negligence is of an affirmative character and directly affects the conduct of the cashing or presenting bank, there is here neither claim nor showing that appellees were induced by any conduct of the United States, other than by the issuance of the checks,

to present the checks and collect the proceeds and turn them over. But, as previously noted, the Fifth Circuit in the *Atlantic National Bank* case, which is indistinguishable on its facts from the present case, stated that the '*National Metropolitan Bank* case was not at variance with its decision for the reasons given in its earlier opinion in *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949). There the court had ruled that, for the purpose of determining whether an impostor's endorsements of the payee's name were forgeries or not, "[t]he real question [was] whether these signatures are forgeries, or mere steps in a fraud" (175 F. 2d at 272), and had concluded that the *National Metropolitan Bank* case involved forgeries, ignoring the fact that the checks in that case had been issued as a result of the fraud of the person who forged the signatures of the payees' names. And although the United States in the *Atlantic National Bank* case also relied on the *Washington Loan & Trust Co.* and *Onondaga County Savings Bank* cases, *supra*, the opinion did not attempt to distinguish those cases. We believe that an examination of the facts in the cases rejected, explicitly or by silence, as controlling by the Fifth Circuit and necessarily by the court below, as well as of the policy supporting their results, leaves no doubt but that the rule of those cases is controlling here and requires a reversal of the decision below.

A. *The Decisions in National Metropolitan Bank and Related Cases.*

In *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), the action was brought by the United

States to recover the sum of payments made upon 144 Government checks. The facts, which were fully stated in the Court of Appeals opinion at 142 F. 2d 474-475, show that the checks were issued as a result of the fraud of James H. Foley, a civilian clerk in the Headquarters office of the Paymaster of the United States Marine Corps in Washington, D. C. He was assigned to prepare officers' pay and mileage vouchers, to prepare checks in payment thereof, to present the checks for signature by the Paymaster or other disbursing officers duly authorized to draw checks on the Treasury, and to deliver the signed checks to the named payees. During a period of twenty-eight months, Foley forged pay and travel mileage vouchers, together with the necessary supporting travel orders, and prepared 144 Treasury checks for payment of the amounts of the forged vouchers and orders. In the ordinary course, he presented the checks to the Paymaster, who signed them. All were payable to one or another of sixteen actually existing Marine officers stationed in Washington, none of whom was entitled to the proceeds of the checks or had any knowledge of the fraud. The signed checks were returned to Foley for distribution to the several officers, but Foley, instead of delivering the checks, forged the signatures of the payees, added his own name as second endorser, and cashed or deposited them with the Anacostia Bank of Anacostia, District of Columbia. That Bank made no investigation of the genuineness of the payees' signatures, but took the checks in reliance on Foley, stamped them with the endorsement—"Pay to the order of any Bank for collection." The presenting bank likewise so endorsed

the checks, presented them to the Treasury and received payment. The Supreme Court, affirming the decision of the Court of Appeals for the District of Columbia at 142 F. 2d 474, held that the negligence of the drawer-drawee in failing to discover fraud prior to the issuance of the checks did not absolve the guarantor of prior endorsements from liability in cases where the prior endorsements have been forged. In reaching this result the Court said (323 U.S. at 458):

There is nothing here to support the petitioner's contention that the government's conduct in issuing the checks prompted it to guarantee the payee's endorsement. Such a guarantee no more results from the issuance of government checks than any other checks. Government regulations concerning payment of its commercial paper point the other way. Treasury Regulations have made guarantee of prior endorsements a prerequisite to payment. 31 C.F.R. 202.33. This guaranty was a protection which the government sought not only as to checks which were issued in due course for a valuable consideration, but as to checks which might have been irregularly issued. That the administrative officers failed fully to perform their duty is no reason why the government should be deprived of the advantage of a guarantee independently made by one who was not under compulsion of any kind to make it. No equitable principles require that one who, for his own reasons, guarantees a payee's signature after issuance of a check, shall be relieved of his voluntarily assumed obligation because others who owed the government

obligations had previously defaulted in their obligations.

In *Washington Loan & Trust Co. v. United States*, 134 F. 2d 59 (C.A.D.C., 1943), the United States sued to recover the amount paid to defendant banks on 1072 Treasury checks which had been issued as the result of a fraudulent scheme perpetrated by a person named Stitely, who was chief of the voucher unit of the accounts section of the Park Service. It was his duty to prepare bi-monthly payroll vouchers in the names of employees of the Service, present them to the disbursing officers and receive and distribute the checks payable to such employees. For four years Stitely made up fraudulent payroll vouchers for fictitious and non-existent employees of an imaginary Civilian Conservation Camp. These he took to the office of the Chief of Finance each pay day and received checks payable to the persons on the legitimate and also on the fraudulent payrolls. The checks on the fraudulent payrolls he retained, forged the signatures of the payees and cashed or deposited them to his account in one of the banks, defendants in the suit. In the course of its decision in favor of the United States, the court expressly held that the case did not fall within the impostor rule. While the Supreme Court made no reference to the impostor rule in the *National Metropolitan Bank* case, it should be observed that the Court of Appeals decision affirmed in that case expressly followed its earlier decision in *Washington Loan & Trust Co.*, including the holding with respect to the inapplicability of the impostor rule. 142 F. 2d 474, 475-476.

In *Onondaga County Savings Bank v. United States*, 64 Fed. 703 (C.A. 2, 1894), the Government sued to

recover the amount paid out on several fraudulently procured pension drafts. A pension certificate was issued and sent to Alma Wood although she had died several weeks earlier. Soon thereafter vouchers, purporting to be signed by Alma Wood and accompanied by fraudulent affidavits and certificates, were submitted and the drafts were issued on the basis of the proofs containing the forged signatures of Alma Wood. Alma Wood's endorsement as payee was then forged on the drafts in the same handwriting as that which appeared on the proofs upon which the pension agent had issued the drafts. The defendant bank cashed the drafts for Sylvester Wood, her husband, who added his name as a second endorsement. In making this payment, the bank relied on the identification of Sylvester Wood and of the signature of "Alma Wood" by one of the bank's depositors who accompanied Sylvester Wood to the bank and was personally known to the officers of the bank. In holding for the United States, the court stated (64 Fed. at 704-705):

* * * The government had a right to rely upon the fact that the assistant treasurer would pay out no money on the draft except to Alma Wood personally, upon proof of her identity, or to some responsible person presenting her indorsement and gauranteeing its genuineness; and it is no defense to a claim that an indorsee who has, by a forged indorsement, received from the drawee money to which he is not entitled, shall refund the same, to show that the same person who deceived him into paying money on the forged indorsement of the draft also induced the government to issue the draft on a forged signature to the voucher.

On the back of the drafts was printed the following notice:

“The payee’s indorsement on this check must correspond with the signature to the voucher for which the check was given. If the payee cannot write, his or her mark should be witnessed, and the witness state his or her residence in full.”

It is contended that the effect of this is to make the draft payable, not to the individual named as payee, but to whoever might indorse it with the same signature as that affixed to the vouchers. There is no force in this contention. The notice was, as the district judge held, intended only to insure greater accuracy and precision, and was for the benefit of all who might thereafter deal with the drafts. The requirement that Alma Wood should indorse the drafts with the same signature with which she signed the vouchers did not operate to change the designation of the payee. It was still the “order” of Alma Wood, and of Alma Wood only, which was required to authorize the payment of the money to any one other than herself. Moreover, it in no way misled or deceived the bank, which made no effort to ascertain whether or not the signature corresponded, but cashed the drafts on the simple assurance of its depositor that the signature of Alma Wood was correct.

The *Onondaga* case was cited with the approval by the Supreme Court in *United States v. National Exchange Bank of Providence*, 214 U.S. 302 (1909).⁸

⁸ The *National Exchange Bank of Providence* case, which was expressly followed and adhered to by the Supreme Court in the *National Metropolitan Bank*, also gives support for the proposition

These cases have established a federal rule which is dispositive here. The great majority of state court decisions have also permitted the drawer to recover where, unknown to the drawer, endorsements of the payee's name have been made by the persons causing the checks to be drawn pursuant to false claims or payrolls and no acts of the drawer could have deceived the cashing party as to the identity of the payee. *E.g.*, *Los Angeles Investment Co. v. Home Savings Bank*, 180 Cal. 601, 182 P. 293 (1919); *United States Cold Storage Co. v. Central Manufacturing District Bank*, 343 Ill. 503, 175 N.E. 825 (1931); *McCornack v. Central State Bank*, 203 Iowa 833, 211 N.W. 542 (1926); *Jordan Marsh Co. v. National Shawmut Bank*, 201 Mass. 397, 87 N.E. 740 (1909); *City of St. Paul v. Merchants National Bank*, 151 Minn. 485, 187 N.W. 516 (1922); *American Sash & Door Co. v. Com-*

that a guarantor of prior endorsements will not be relieved of its obligation solely on the ground that checks are cashed for the person who had also induced the Government to issue the checks by means of fraudulent devices. In that case, the issuance of 194 Government pension checks to some existing payees not entitled to pensions and some dead payees was procured during a period of about ten years by means of fraudulent vouchers which were accepted as genuine by the Government, although its records would unquestionably have permitted discovery of the frauds at some point short of the ten years. The signatures on all of the vouchers were forged. Thereafter, the endorsements of the payees were forged on each check, presumably by a William A. Munson, and the checks were regularly cashed by the National Exchange Bank of Providence, which forwarded them for collection. While the record shows only that all the signatures on both the vouchers and the checks were forged and not that the same person made all the forgeries, a logical inference would seem to be that the person who obtained and cashed the checks had also prepared the fraudulent vouchers. The Supreme Court, in directing a judgment in favor of the United States, held, *inter alia*, that negligence in the issuance of the checks or in discovery of the fraud was not a defense which the bank could interpose.

merce Trust Co., 332 Mo. 98, 56 S. W. 2d 1034 (1933); *Fitzgibbons Boiler Co. v. National City Bank*, 287 N.Y. 326, 39 N.E. 2d 897 (1942); *City of New York v. Bronx County Trust Co.*, 261 N.Y. 64, 184 N.E. 495 (1933); *Strang v. Westchester County National Bank*, 235 N.Y. 68, 138 N.E. 739 (1923); *Shipman v. Bank of the State of New York*, 126 N.Y. 318, 27 N.E. 371 (1891); *Commonwealth v. Globe Indemnity Co.*, 323 Pa. 261, 185 Atl. 796 (1936); see Britton, *Bills and Notes* (1943), pp. 703-709; Note, 99 A.L.R. 439; Contra: *C. E. Erickson Co. v. Iowa National Bank*, 211 Iowa 495, 230 N.W. 342 (1930); *Defiance Lumber Co. v. Bank of California*, 180 Wash. 533, 41 P. 2d 135 (1935). While the applicability of the impostor rule has not been frequently raised or discussed in these cases, the contention was specifically rejected in *Commonwealth v. Globe Indemnity Co.*, *supra*. There a clerk in a department of the Commonwealth of Pennsylvania handling claims for condemnation of tubercular cattle and a confederate, not employed by the state, fabricated papers showing amounts due to various fictitious persons, the false vouchers being prepared by the confederate. The clerk placed the false papers with valid records and the fraud was not discovered by the auditor general or state treasurer or any other official as the records moved from the department of origin to fiscal officers who drew the checks, which were then mailed to the post office addresses stated in the papers. In this way, the swindlers procured the issuance of 116 checks. After obtaining them from the mails by means not shown, as is true in these cases, they endorsed the checks in the names of the payees. The court stated (323 Pa. at 270, 185 Atl. at 800):

It is also obvious from what has been said that the cases of impersonation, the so-called impostor cases, do not help appellant. They depend on the drawer's intention, a test applied by the weight of authority; the drawer is precluded (section 23) by that. If a particular person is intended and designated as payee, it is immaterial to the drawer by what name he is called; he may endorse and payment to him will be good (as was decided in *Land Title & Tr. Co. v. Northwestern Nat. Bank*, 196 Pa. 230, 46 A. 420) because such payment accords with the drawer's intention. But if any intention may be attributed to the Commonwealth in drawing and mailing the checks involved in this case, it is limited by what was stated on the check and by mailing it; there was here no additional evidence of intention such as handing the check to the person intended as, for example, in *Land Title & Tr. Co.'s* case, which precluded the drawer from asserting that it intended the payee to be the person who owned the property and not the person who was present at the settlement, answering to the name of and claiming to be the owner.

Thus, the court which decided *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900), a leading case on the impostor rule,⁹ held the rule inapplicable to facts indistinguishable from those in the present cases.

⁹ See p. 31, *infra*.

B. The Policy of the National Metropolitan Bank Case Has Application to the Facts of the Present Cases.

Strong considerations of policy support the almost universal rule, which was followed by the Supreme Court in the *National Metropolitan Bank* case, that the drawer owes no duty to protect one who voluntarily cashes a check against the forgery of the payee's signature and consequently that the one cashing a check will not be relieved of his guarantee of prior endorsements on the sole ground that the check was fraudulently procured from the drawer by the forger. No one is compelled to cash a check or to accept an endorsement. The endorsee who does not know the payee and is not satisfied with the genuineness of the endorsement can, and usually will, decline to accept it or to pay out money on the strength of it. Similarly, where a check is submitted to a bank for cashing by an alleged endorsee of the payee (as in the cases at bar), the bank is not required to cash the check; if it does, it relies not upon any representations which could be derived from the fact of the check's issuance, but upon the responsibility and integrity of the person tendering the instrument to it. Checks are not likely to be cashed for an unidentified stranger, regardless of the reputability of the other names on the paper as drawer or payee. And conversely, checks drawn by an unknown maker upon an unknown drawee and endorsed by an unknown payee will readily be accepted by banks which know and are willing to rely upon the person who tenders and endorses the check for deposit or cash. For these reasons, one who pays out money on a check is not concerned with the circumstances of its issuance which are not known to him, nor with what precaution against for-

geries the drawer may have taken before or after emitting the check. If the payee's endorsement is forged and loss occurs, it is the "neglect or error" of the cashing or collecting bank in "accepting the forger's signature which occasions the loss," *Clearfield Trust Co. v. United States*, 318 U.S. 363, 370 (1943), unless the drawer's lack of precaution has made it impossible, as a practical matter, for the bank to discover the forgery.

Were a contrary rule to obtain, facts unknown to a cashing bank and upon which it did not and could not rely would enable it to evade the expected result of its mistaken reliance upon the integrity or responsibility of those with whom it deals. If a check payable to the order of a named payee is stolen or lost and the endorsement forged, the loss unquestionably falls upon him who accepts the endorsement and thereafter negotiates the paper or collects it. As long as the conduct of the drawer could not mislead the casher, the situation is outwardly no different where the issuance of a check is procured by fraud and the payee's signature is forged; in both cases the drawer's direction that the drawee should pay to the order of a designated person, or the drawer-drawee's intention so to pay, has not been satisfied. Moreover, to give the cashing bank the benefit of circumstances which had no bearing upon the bank's election to accept the check would merely bestow a windfall upon it. It could not count on the defense of the drawer's failure to adopt adequate precautions; hence the bank would have to take identical precautions in all cases—*i.e.*, to satisfy itself of the responsibility of the tenderer of the check, or to identify the payee's signature. If the checks should later prove to involve

some negligence on the part of the drawer, the cashing bank would unfairly be afforded the benefit of something which was of no concern to it and which could not have been taken into account when it accepted the check.

The rule of *National Metropolitan Bank* recognizes the fact that drawer would be unwilling to risk the free use of checks if the result of any negligence, however slight, were to relieve the person accepting an endorsed check and paying out cash thereon of the responsibility to ascertain at his peril that the endorsements are genuine. The considerations supporting this belief were excellently summed up by the Court of Appeals of New York in *Gallo v. Brooklyn Savings Bank*, 199 N.Y. 222, 226, 92 N.E. 633, 634 (1910) :

* * * Corporations, some of them numbering their stockholders by thousands, and usually ignorant of their identity and signatures, pay their dividends by checks to the orders of the various stockholders, transmitted by mail, relying on their right to reclamation from the banks in case the checks have been indorsed or collected by persons not entitled thereto. So, also, a person will send by post to the most distant part of the country his check to the order of another person to whom he wishes to pay or transfer money, confident in the knowledge that the abstraction of the check can entail no loss on him. On the continent of Europe a different rule prevails, and payment by the drawee to a party presenting the same, of a bill drawn to order, is valid, even though the indorsement is forged, provided the drawee acts in good faith and without negligence. In England the common-law rule prevailed as to bills (but not as

to checks) until the Bills of Exchange Act of 1882, which adopted the continental rule as to sight bills, but not as to time bills, though a limited protection against forgery of the name of the payee may be had by "crossing". Such a rule would render the present business methods of this country impossible. Although at times banks have complained of the harshness of our rule, and in some instances while acting in good faith have been subjected to severe loss (*Shipman v. Bank of the State of N.Y.*, 126 N.Y. 318, 27 N.E. 371, 12 L.R.A. 791, 22 Am. St. Rep. 821), as a result of this rule banks are used by all classes of our people for the deposit of funds and payment is made by check to an extent unknown elsewhere. Of course a party entitled to the receipt of money may insist upon its payment in cash and not by check.¹⁰

The foregoing considerations are fully applicable to the present cases. It is apparent that the appellee banks in cashing the checks did not rely upon any representations as to the identity of the payees which might have been derived from the fact that the checks had been issued and delivered to the named person since with respect to each check a second endorsement had been

¹⁰ In this respect it should be noted that, according to information received from that Treasury, the United States cashed approximately 38 million refund checks in the fiscal year 1949 (when the checks here involved were paid) and 36 million such checks in fiscal year 1958. The volume of refund checks and the obvious desirability of making speedy payments to the taxpayers, show that the Treasury would be faced with an impossible task if, prior to issuing each refund check, it attempted to determine the existence of each payee because it could not rely on persons cashing such checks to seek proper identification from alleged payees.

added when the instrument was tendered for payment. Though appellee banks do not seem to be in any position to assert the possible rights of any prior endorsers who may have taken the checks in good faith reliance on a defrauder's endorsement of payee's name only,¹¹ it is not amiss to point out that there is nothing in the record to suggest that such endorsers were, or could have been, misled by the United States as to the identity of the payees. If the disbursing agent had been asked to identify the physical person claiming to be any one of the named payees, he would have been unable to do so inasmuch as his knowledge about the payee was limited to the information that appeared on the fraudulent tax return—namely, the payee's name and address as it appeared on the face of the check and also the name and address of the supposed employer (R. 28-29, R'. 20). And since it is not suggested that the assumption of the payees' names by one of the conspirators was manifested by any acts other than the unwitting signing of the fraudulent income tax returns and the endorsement of the checks in the names of the payees, the ability of those cashing the checks to identify the payees in these cases upon the basis of information furnished by the Government was no greater here than in the *National Metropolitan Bank* case.

While we have no quarrel with the general proposition stated by the *Atlantic National Bank* case that "it subjects banks to unreasonable burdens against

¹¹As noted above, p. 4, on at least 54 of the 58 checks cashed by the Security-First National Bank and on at least 3 of the 7 checks cashed by the Bank of America, one of the conspirators added a second endorsement which was genuine and upon which the banks necessarily relied in cashing the checks.

which they could not reasonably protect themselves short of a complete embargo on Government checks to hold them not only to a guarantee that an existing person named and intended as payee has signed the endorsement, but that the very person named and in that name and no other, had a just claim against the Government for which the check was issued" (250 F. 2d at 118) and believe that it suggests the basic policy for the impostor rule,¹² it does not afford a basis for ignoring the result and policy of the *National Metropolitan Bank* case in these cases or in the *Atlantic National Bank* case since, unless the conduct of the drawer either misleads, or at least might have misled, the banks into cashing a check for a defrauder, the burden on the banks, as we have shown, is no greater here than in *National Metropolitan Bank*.¹³

¹² See discussion, pp. 35-46, *infra*.

¹³ It is not significant that here the names of the payees were fictitious or nonexistent while in the *National Metropolitan Bank* case the names of living persons not entitled to reimbursement and without knowledge of the fraud were used. For, as is stated in Brannan's *Negotiable Instruments Law* (7th ed., 1948, at pp. 334-335):

* * * when a maker believes that the payee is a real person, even if his signing and putting into circulation the instrument payable to a fictitious or nonexisting payee is held to be an admission that the payee is a real person, this does not show that the maker expects and intends the instrument to pass as if made to bearer. Quite the contrary, he intends it to pass only by endorsement, and if there is no such person as the payee, it simply can not pass at all. Any other rule is illogical and unjust, for the person taking an instrument purporting to be payable to a person without indorsement is not entitled to consideration, and if it is indorsed by some one in the name of the fictitious or nonexisting person the loss to the buyer of such an instrument is not due to the fact that the payee is fictitious or nonexisting, but to the fact that the instrument is indorsed by someone who is not authorized to indorse it, either by the maker or by the terms of the instrument, and the

II

The Impostor Rule Is Not Applicable to the Present Facts

While the so-called "impostor rule" may in some cases justify placing the loss resulting from successive frauds on the drawer, it is our position that neither precedent nor reason call for its application to facts of these cases. Particularly in view of the Fifth Circuit's decision in the *Atlantic National Bank* case applying the impostor rule to an almost identical fact situation, the rationale and scope of that so-called "rule" must be examined in detail. Since *Security-First National Bank v. United States*, 103 F. 2d 188 (C.A. 9, 1939), the only case involving the impostor rule decided by this Court, was expressly based on the law of California, rather than on federal law,¹⁴ this Court is free to examine the impostor rule critically and to determine when and for what reasons it should be applied as a matter of federal law.¹⁵

The impostor rule stands for the proposition that where the drawer delivers a negotiable instrument to an impostor as payee, supposing that the impostor is the

indorsee is in such a case no worse off than in the case of the forgery of the indorsement of the name of a real person.

Acceptance of this principle by the courts is illustrated by the *Washington Loan & Trust Co.* case where the names of all of the payees were fictitious or nonexistent.

¹⁴ In 1943, the Supreme Court in *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943) held that the rights and obligations of the United States on commercial paper issued by it must be determined on the basis of federal, not state law, and thereby resolved the conflict among the courts of appeals on that choice of law question.

¹⁵ The Supreme Court has never examined the impostor rule and, of the Courts of Appeals, only the Fifth and Tenth Circuits have applied the rule as a matter of federal law.

person he has falsely represented himself to be, the impostor's endorsement is regarded as a genuine endorsement as to subsequent holders in good faith. See, *e.g.*, *Security-First National Bank v. United States*, 103 F. 2d 188, 190 (C.A. 9, 1939). The endorsement by the impostor is either deemed not to be a forgery or else the drawer is precluded from asserting the forgery. These alternative views stem from the fact that at common law and under Section 23 of the Uniform Negotiable Instruments Law¹⁶ a signature which is "forged or made without authority of the person whose signature it purports to be" may not be wholly "inoperative" but may, on the contrary, confer a right against a party to a negotiable instrument if "the party against whom it is sought to enforce such right, is precluded from setting up the forgery or want of authority." But, as recognized by the Court of Appeals of New York, a "distinction between a case where there has been no forgery or want of authority and a case where a party against whom it is sought to enforce a right is 'precluded from setting up the forgery or want of authority' seldom carries any practical consequences; and the courts may at times ignore distinctions in thought which carry no practical consequences." *Cohen v. Lincoln Savings Bank*, 275 N.Y.

¹⁶ Section 23 of the Uniform Negotiable Instruments Law provides:

When a signature is forged or made without the authority of the person whose signature it purports to be, it is wholly inoperative, and no right to retain the instrument, or to give a discharge therefor, or to enforce payment thereof against any party thereto, can be acquired through or under such signature, unless the party, against whom it is sought to enforce such right, is precluded from setting up the forgery or want of authority.

399, 404, 10 N.E. 2d 457, 459 (1937). Thus, in many opinions, the question of whether a challenged endorsement of the name of the payee has been made by the person who was intended by the drawer to be the payee seems to have become obscured and confused with the question of whether a party against whom a right is asserted is "precluded" from setting up the forgery.¹⁷ Indeed, most of the cases normally cited for the impostor rule have been based both on the ground that there was no forgery and that the drawer was precluded from asserting it.¹⁸

A. The Doctrine of Actual or Dominant Intent Does Not Afford a Satisfactory Reason for Application of the Impostor Rule and Is An Unworkable Test.

It has frequently been said that the principal ground adopted in the cases supposed to enunciate the impostor rule is that the bank in paying the impostor has merely carried out the drawer's actual intent. See, *e.g.*, *United States v. First National Bank of Prague*, 124 F. 2d 484, 487 (C.A. 10, 1941); Britton, *Bills and Notes* (1943),

¹⁷ See, *e.g.*, *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949); *Central National Bank v. National Metropolitan Bank*, 31 App. D.C. 391, 17 L.R.A.(n.s.) 520 (1908); *Montgomery Garage Co. v. Manufacturers Liability Insurance Co.*, 94 N.J.L. 152, 109 Atl. 296 (1920).

¹⁸ It is of interest to note that in *United States v. First National Bank of Prague*, 124 F. 2d 484 (C.A. 10, 1941), the court cited many of the same cases both for the proposition that payment to an impostor "merely effectuates the intent of the drawer" (124 F. 2d at 487) and then for the estoppel proposition that "as between two innocent persons, both of whom are victims of fraud, the burden must fall upon the one whose negligence first facilitated and made possible the loss." (124 F. 2d at 488). There the latter consideration was deemed controlling and in the circumstances involved the United States prevailed against the presenting bank.

p. 724. This result is often explained by stating that the drawer has a dual intent, first that he intends to make the instrument payable to the impostor with whom he deals, either in person or by means of correspondence, and second, that he also intends to make it payable to the person whom he believes the impostor to be and that the first intent is dominant. While it is true that in the majority of the so-called impostor cases the drawer has suffered the loss and a statement appears that the drawer intended the impostor to be the payee or that first intent was dominant, a reading of the cases shows that, but with only a few exceptions, the courts have also advanced a variety of equitable considerations in support of the result. This is vividly illustrated by *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900), a leading impostor case, where the court states (196 Pa. at 234-235; 46 Atl. at 421):

[The rule that a bank is liable to its depositor when it pays out on a forged endorsement] should not apply when the check is issued to one whom the drawer intends to designate as the payee; first, because in such a case the risk is not the ordinary risk assumed by the bank in its implied contract with its depositor, but a largely increased risk, as it follows that a check thus fraudulently obtained will be fraudulently used; the bank is deprived of the protection afforded by the fact that a bona fide holder of a check will exercise care to preserve it from loss or theft, which are the ordinary risks; there is thrown upon the bank the risk of antecedent fraud practiced upon the drawer of the check, of which it has neither know-

ledge nor means knowledge; secondly, because in such a case the intention with which the drawer issued the check has been carried out * * *.

Moreover, as has often been recognized, even by adherents to the impostor rule, the dual intents of the drawer are so inseparable that the choice of one intent as the dominant one seems to be purely arbitrary. See, e.g., *Dartmouth National Bank of Hanover v. Keene National Bank*, 99 N.H. 458, 115 A. 2d 316 (1955); *Cohen v. Lincoln Savings Bank*, 275 N.Y. 399, 407-408, 10 N.E. 2d 457, 461 (1937); Abel, *The Impostor Payee: Or, Rhode Island Was Right*, 1940 Wis. L. Rev. 161, 362 at 228-233; Note, 34 Harv. L. Rev. 76, 77 (1920); 23 Cornell L. Q. 307, 309 (1938); 15 N.Y.U.L. Rev. 289, 290 (1938); 24 Va. L. Rev. 192, 193 (1937). The unsatisfactory nature of the standard provided by the dominant intention criterion was recognized by both opinions in the *Atlantic National Bank* case. Judge Brown, speaking for the majority, stated that "there is little to breathe into the transaction [leading to the issuance of the tax refund checks] an articulate consensual 'intent' which would characterize more weighty matters or those found in a more primitive society." (250 F. 2d at 117). Judge Rives, in his dissent, asserted that the impostor rule, which the majority had stated in terms of intent, "introduces confusion, requiring the ascertainment of nonexistent intent and almost metaphysical speculation degenerating into mere logomachy." (250 F. 2d at 120).

It is therefore clear that the actual, dominant or subjective intention doctrine does not provide a workable standard for determining whether or not an impostor's endorsement should pass title to a fraudulently

obtained negotiable instrument. Furthermore, there is no necessity in the law of negotiable instruments to look beyond the face of the instrument for the purpose of ascertaining the drawer's intent and, indeed, the general practice in the law of negotiable instruments, except in some of the impostor cases, has been to disregard everything that does not appear on the face of the instrument. See *Cohen v. Lincoln Savings Bank*, 275 N.Y. 399, 412, 10 N.E. 2d 457, 463 (1937). The fact that the intent of the drawer is frequently derived solely from what appears on the face of the instrument is illustrated by cases like *National Metropolitan Bank, Washington Loan & Trust Co., Onondaga County Savings Bank* and *Commonwealth v. Globe Indemnity Co., supra*.

Thus searching for an actual intent, as opposed to the intent which appears on the face of the check, is not only arbitrary and unrealistic in the impostor cases but also unnecessary. The most that can be said for the intention doctrine is that it may provide a "means of rationalization for the purpose of supporting a desired result[,] * * * not the cause of an effect." Note, 15 N.C.L. Rev. 186, 188 (1937). For these reasons, we urge this Court to reject the intention doctrine as a test for determining when the impostor rule should be applied.

B. Several Other Reasons Advanced For the Impostor Rule Are Not Acceptable As a Matter of Federal Law.

In addition to the dominant intent criterion, many of the various reasons that have been advanced, either singly or in conjunction with others, cannot properly

be used to support application of the impostor rule as a matter of federal law since such reasons have now been conclusively rejected by the Supreme Court as a basis for imposing the loss resulting from successive frauds on the drawer in *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), and *United States v. National Exchange Bank of Providence*, 214 U.S. 302 (1909). Among the reasons so advanced which fall into this category are that by delivering a check to an impostor, the drawer improperly exposes the drawee to an increased risk, because the impostor will undoubtedly practice fraud to induce the drawee to cash the check;¹⁹ that as between two innocent parties, both of whom are victims of fraud, the loss must fall upon the one whose negligence first made possible the loss;²⁰ and that by reason of the negligence of the drawer in allowing himself to be deceived, he is estopped to assert the forgery.²¹

Moreover, the policy in favor of free circulation of commercial paper, with which the majority in the *Atlantic National Bank* buttressed its intent finding and which was the only basis for decision in *Dartmouth*

¹⁹ E.g., *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900); *Boatsman v. Stockmen's National Bank*, 56 Colo. 495, 138 Pac. 764 (1914); *Cureton v. Farmers' State Bank*, 147 Ark. 312, 227 S.W. 423 (1921); *Uriola v. Twin Falls Bank & Trust Co.*, 37 Idaho 332, 215 Pac. 1080 (1923).

²⁰ E.g., *United States v. First National Bank & Trust Co. of Oklahoma City*, 17 F. Supp. 611 (W.D. Okla., 1936); *United States v. National Exchange Bank*, 45 Fed. 163 (C.C.E.D. Wis., 1891); *Crippen, Lawrence & Co. v. American National Bank*, 51 Mo. App. 508 (1892).

²¹ E.g., *J. L. Levy & Salomon v. Bank of America*, 24 La. Ann. 220 (1872); *McHenry v. Old Citizens National Bank*, 85 Ohio St. 203, 97 N.E. 395 (1911); *Hoffman v. American Exchange National Bank*, 2 Neb. Unof. 222, 96 N.W. 112 (1902).

National Bank, supra, cannot, we submit, provide an independent basis applying the impostor rule as a matter of federal law solely on the ground that the first two victims of a fraud should bear the resulting loss inasmuch as precisely that criterion was rejected by the Supreme Court in the *National Metropolitan Bank* case. The distinction which the Fifth Circuit attempted to draw between the facts of the *National Metropolitan Bank* case and in the *Atlantic National Bank* case (250 F. 2d at 118) with respect to the question of negotiability is without merit since it depends on the court's unwarranted supposition that an actual intent to pay the swindler can be ascribed to the Government in the *Atlantic National Bank* case, *supra*, p. 11.

C. Impostor Cases Imposing Loss on Drawer May Logically Be Distinguished from the Rule of National Metropolitan Bank on the Ground that in Those Cases the Drawer's Conduct Imposed an Unreasonable Burden of Inquiry on the Cashier with Respect to the Payee's Identity.

Nevertheless, an examination of the impostor situation cases including both those placing the loss on the drawer and those placing it in the party taking the instrument from the swindler, does suggest a rather consistent policy consideration underlying the double impersonation cases which distinguishes them from cases like *National Metropolitan Bank* and, of greater present importance, also from the cases at bar. A discussion of this policy will demonstrate that the Fifth Circuit's determination of intent on the grounds that there were dealings "of a kind" between the swindler and the United States and that the swindler im-

personated the payee at least in submitting the false tax returns (250 F. 2d at 118) was erroneous not only because of the uselessness of the actual intent criterion but also because it ignored the considerations which give importance to factors of drawer-impostor dealings and dual impersonation of the same person in the impostor cases.

The results in practically all of the dual impersonation²² situation cases may be explained, we believe, on the basis of whether or not it is felt that an unreasonable burden of inquiry with respect to the identity of the payee would be imposed on the first bona fide transferee of the instrument from the impostor if the loss were imposed on such transferee. The impostor cases which impose the loss on the drawer may be divided into two general classes.

1. Cases in which cashing party has actual knowledge of drawer-impostor dealings.

The first of these two classes is comprised of those cases in which the first bona fide transferee of the instrument from the impostor in fact knows that the instrument was delivered or meant to be delivered by the drawer to the person seeking payment. In some instances, the drawer, after personally dealing with the impostor and delivering the check to him, has also advised the cashing bank that the person with whom the bank is dealing is the designated payee. See *United States v. First National Bank & Trust Co. of Oklahoma*

²² Most of the so-called "impostor" cases involve impersonation of the payee both for the purpose of obtaining the check from the drawer and then cashing it. In other forgery cases, there is also a single impersonation when the check is cashed.

City, 17 F. Supp. 611 (W.D. Okla., 1936); *Greenberg v. A & D Motor Sales*, 341 Ill. App. 85, 93 N.E. 2d 90 (1950); *Schweitzer v. Bank of America*, 42 Cal. App. 2d 536, 109 P. 2d 441 (1941). Occasionally, the dealings with the impostor have been conducted by the drawer's agent and when the instrument was cashed the agent identified the impostor as the person to whom the check was purposefully delivered. See *Maloney v. Clark & Co.*, 6 Kan. 82 (1870). In other cases, the identification has been made by a person with no knowledge of the fraud whom the drawer would or should have expected to make the identification. See *United States v. First National Bank of Albuquerque*, 131 F. 2d 985 (1942), certiorari denied, 318 U.S. 774 (1943); *Central National Bank v. National Metropolitan Bank*, 31 App. D.C. 391, 17 L.R.A. (n.s.) 520 (1908); *United States v. National Exchange Bank*, 45 Fed. 163 (C.C. E.D. Wis., 1891); *Crippen, Lawrence & Co. v. American National Bank*, 51 Mo. App. 508 (1892); *Hoffman v. American Exchange National Bank*, 2 Neb. Unof. 222, 96 N.W. 112 (1902); see also *McHenry v. Old Citizens National Bank*, 85 Ohio St. 203, 97 N.E. 395 (1911). Or the cashing bank may have been advised by a party on whom the drawer had also relied, but who was presumed by the court to have knowledge of the fraud, that the instrument was delivered to the impostor. See *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949); *Emporia National Bank v. Shotwell*, 35 Kan. 360, 11 Pac. 141 (1886). Finally, there are several cases in which party cashing the instrument, who was not a party to the fraud, knew that the impostor had induced the drawer to issue and deliver the instrument

to the impostor in the belief that he was the named payee. See *Heavy v. Commercial National Bank of Ogden*, 27 Utah 222, 75 Pac. 727 (1904); *Forbes & King v. Espy, Heidelbach & Co.*, 21 Ohio St. 474 (1871); see also *Citizens' Union National Bank v. Terrell*, 244 Ky. 16, 50 S.W. 2d 60 (1932).²³

In those instances where the drawer upon inquiry by the casher in fact advises the casher to pay the impostor, the drawer is clearly precluded from asserting forgery. This reflects the fact that the obligation of an endorser on a guaranty of prior endorsements or of a drawee to pay only in accordance with the instructions of the drawer is deemed fulfilled when the drawee or endorser has made as broad an inquiry as to the identity of the payee as the drawer could reasonably expect. Even where the representation as to the identity of the payee is not made by the drawer personally, the facts in the cases cited above are sufficient to support the conclusion that the conduct of the drawer led the casher, after a reasonable inquiry, to believe that the impostor was the payee. This consideration was adopted by the Fifth Circuit in the *Continental-American Bank & Trust Co.* case as a reason for applying the impostor rule there when it stated (175 F. 2d 272):

* * * If the banks see that the very person to whom a check was issued and delivered has en-

²³ A number of cases which are ordinarily cited in support of the impostor rule with respect to negotiable instruments, though they do not involve negotiable instruments at all but relate to contracts of a different nature, belong to the same category. *Boatsman v. Stockmen's National Bank*, 56 Colo. 495, 138 Pac. 764 (1914); *Metzger v. Franklin Bank*, 119 Ind. 359, 21 N.E. 793 (1889); *Western Union Telegraph Co. v. American State Bank*, 277 S.W. 226 (Tex. Civ. App., 1925).

dorsed it in the form required, the indorsement is a genuine one, although the name is a wrong one. * * *

It is apparent, therefore, that the policy considerations which compelled the result in the *National Metropolitan Bank* case, are not applicable to any of these cases since that policy has as a premise that the casher has no knowledge of the circumstances of the instrument's issuance.²⁴

2. *Cases in which impostor would have been identified as payee even if reasonable inquiry had been made.*

The second class of impostor cases in which the loss is imposed on the drawer is comprised of cases in which the person cashing the instrument for the impostor has made no inquiry as to his identity but where it was, at least tacitly, assumed by the courts that even if the casher had in fact made the most careful inquiry as to the payee's identity, which could have been expected under the circumstances of each case, the impostor would have been identified as the payee.

In some instances it is expressly assumed that if identification had been sought from the impostor he would have called upon the drawer for such identification and that the drawer would then have identified the impostor as the rightful payee. See, *e.g.*, *Missouri Pacific R.R. v. M. M. Cohn Co.*, 164 Ark. 335, 339, 261 S.W. 895, 896, certiorari denied, 266 U.S. 627 (1924); *Montgomery Garage Co. v. Manufacturers Liability*

²⁴ See discussion, p. 23, *supra*.

Insurance Co., 94 N.J.L. 152, 155, 109 Atl. 296, 297 (1920); *McHenry v. Old Citizens National Bank*, 85 Ohio St. 203, 211, 97 N.E. 395, 398 (1911). While these cases also speak in terms of effectuating the drawer's intent, the criterion used is not the drawer's subjective intent but rather what the drawer would have told the cashing party if an inquiry had been made. For example, in the *Montgomery Garage Co.* case, in which the impostor, who had assumed a fictitious name, was given a check by defendant, the court, in holding for the party who had cashed the check, stated (94 N.J.L. at 155, 109 Atl. at 297):

* * * In the case at bar, if the plaintiff, before cashing the check, had sent for and asked the drawer whether or not the person presenting the check was the person to whom it was intended to be paid, the answer would have been in the affirmative.

Recognition of this basis for decision also appears in *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900), since the court observed that the impostor could have received payment in cash rather than by check if he had asked for it.

We believe that the foregoing consideration provides the most satisfactory explanation for the cases in which the result was stated primarily in terms of the drawer's intent and the loss was placed on the drawer.²⁵ For

²⁵ For cases of that type see, e.g., *Fidelity & Deposit Co. of Maryland v. Union Trust Co.*, 129 F. 2d 1006 (C.A. 2, 1942); *Meridian National Banks of Indianapolis v. First National Bank of Shelbyville*, 7 Ind. App. 322, 33 N.E. 247 (1893); *Robertson v. Coleman*, 141 Mass. 231, 4 N.E. 619 (1886); *Famous Shoe & Clothing Co. v. Crosswhite*, 124 Mo. 34, 27 S.W. 397 (1894); *Merchants' Loan and Trust Co. v. Bank of the Metropolis*, 7 Daly 137 (N.Y. Common Pleas, 1877); *Townsend, Oldham & Co. v. Continental State Bank*, 178 S.W. 564 (Tex. Civ. App., 1915).

while, as we have already shown, *supra*, p. 32, the ascertainment of the drawer's actual or subjective intent is artificial and arbitrary, in these cases it is much less speculative to assume that the drawer would have identified the impostor as the payee for the cashier. Our belief that this is the criterion used in determining the drawer's intent in the cases applying the impostor rule against the drawer solely on the basis of that intent derives strong support from several groups of cases, decided by courts which have otherwise followed the rule to find against the drawer, in which the drawer prevailed because the assumption that the drawer would be able or willing to identify the impostor as the payee could not be made. Thus, in cases where the drawer has had some doubts as to the identity of the impostor and has, therefore, required him to cash the check at a bank where he was known, the drawer has been permitted to recover. See *District National Bank v. Washington Loan & Trust Co.*, 65 F. 2d 831 (C.A.D.C., 1933); *Dodge v. National Exchange Bank*, 30 Ohio St. 1 (1877); see also *Gallo v. Brooklyn Savings Bank*, 199 N.Y. 222, 92 N.E. 633 (1910). In those cases, even though there were face-to-face dealings between the drawer and the impostor which resulted in the issuance of a check, the assumption that the drawer would have identified the impostor as the payee was contrary to the proven facts. In other cases, face-to-face dealings between the drawer and the impostor have been of such a transitory or insubstantial character that the courts have refused to make the assumption that the drawer would have identified the impostor as the payee and have accordingly imposed the loss on the cashier who could therefore not have been misled by

the conduct of the drawer. See *Cohen v. Lincoln Savings Bank*, 275 N.Y. 399, 10 N.E. 2d 457 (1937); *Simpson v. Denver & Rio Grande R.R.*, 43 Utah 105, 134 Pac. 883 (1913).²⁶

Perhaps the strongest support for this explanation of the intent rationale in the impostor cases is furnished by the cases in which the dealings between the drawer and the impostor have been by correspondence only, for in those cases the loss has rarely been placed on the drawer unless the casher was shown to have actual knowledge about the circumstances surrounding the instrument's issuance and, in any event, practically never on the basis of subjective intent alone.²⁷ That

²⁶ In cases rejecting the impostor rule, e.g., *Keel v. Wynne*, 210 N.C. 426, 187 S.E. 571 (1936); *Tolman v. American National Bank*, 22 R.I. 462, 48 Atl. 480 (1901); *Western Union Telegraph Co. v. Bi-Metallic Bank*, 17 Colo. App. 229, 68 Pac. 115 (1902), the courts were presumably unwilling to assume that inquiry of the drawer would have been the most likely or appropriate means for identifying the payee. Thus, unless the casher had actual knowledge of the dealings between the drawer and the impostor, the correlative assumption that a normal inquiry by the casher as to the impostor's identity would necessarily have shown that he was the payee would also have been unacceptable.

²⁷ Of the correspondence cases usually cited in the support of the proposition that the loss has been imposed on the drawer in the majority of impostor cases regardless of whether the dealings between the drawer and impostor have been face to face or by correspondence, the following are ones in which the court relied on the fact that the casher had, at the time he dealt with the impostor, actual knowledge that the drawer had also dealt with the impostor believing him to be the payee (see discussion, pp. 36-38, *supra*): *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949); *Emporia National Bank v. Shotwell*, 35 Kan. 360, 11 Pac. 141 (1886); *Maloney v. Clark & Co.*, 6 Kan. 82 (1870); *Crippen, Lawrence & Co. v. American National Bank*, 51 Mo. App. 508 (1892); *Hoffman v. American Exchange National Bank*, 2 Neb. Unof. 222, 96 N.W. 112 (1902); *Forbes & King v. Espy, Heidelberg & Co.*, 21 Ohio St. 474 (1871);

these correspondence cases have usually pointed to the actual transmission of the drawer's intent to the cashier, which is not true in the face-to-face dealing cases, is explained by the fact that in cases where the drawer's dealings with the impostor have been face to face it may well be said that the "name of a person is the verbal designation by which he is known, but the visible presence of a person affords surer means of identifying him than his name." *Robertson v. Coleman*, 141 Mass. 231, 232, 4 N.E. 619, 620 (1886). See *Montgomery Garage Co. v. Manufacturers Liability Insurance Co.*, 94 N.J.L. 152, 155, 109 Atl. 296, 297 (1920). In that situation, if the cashier takes the impostor to the drawer for identification, or even if he only describes the physical characteristics of the impostor to the drawer by telephone or correspondence, for the purpose of having the im-

Heavy v. Commercial National Bank of Ogden, 27 Utah 222, 75 Pac. 727 (1904); cf. *Boatsman v. Stockmen's National Bank*, 56 Colo. 495, 138 Pac. 764 (1914); *Metzger v. Franklin Bank*, 119 Ind. 359, 21 N.E. 973 (1889); *Western Union Telegraph Co. v. American State Bank*, 277 S.W. 226 (Tex. Civ. App., 1925); see *Citizens' Union National Bank v. Terrell*, 244 Ky. 16, 50 S.W. 2d 60 (1932). And with the exception of *United States v. Union Trust Co.*, 139 F. Supp. 819 (D. Md., 1956), the other usually cited correspondence cases which have placed the loss on the drawer although the cashier had no knowledge of the drawer-impostor dealings, have not based their decisions solely on the impostor rule intent rationale. See *Hartford Accident & Indemnity Co. v. Middletown National Bank*, 126 Conn. 179, 10 A. 2d 604 (1939); *Uriola v. Twin Falls Bank & Trust Co.*, 37 Idaho 332, 215 Pac. 1080 (1923) (see discussion, p. 45, *infra*); *Peninsular State Bank v. First National Bank*, 245 Mich. 179, 222 N.W. 157 (1928); *First National Bank v. American Exchange National Bank*, 170 N.Y. 88, 62 N.E. 1089 (1902); *States v. First National Bank of Montrose*, 17 Pa. Super. 256, affirmed, 203 Pa. 69, 52 Atl. 13 (1902) (In *Commonwealth v. Globe Indemnity Co.*, 323 Pa. 261, 270, 185 Atl. 796, 800 (1936), the court explained that only justification for the *Montrose* result was that the drawer had sued too late—the express ground on which the lower court decision in *Montrose* had been affirmed).

postor identified as the payee, the drawer would normally be expected to so identify the impostor on the basis of the physical characteristics known to him.²⁸ On the other hand, where the dealings have been exclusively by correspondence, as in the present cases, the drawer would normally be in no position to identify any particular individual as the person intended to be the named payee or, if the payee was known to him personally, could in fact expose the impersonation so that in the absence of any knowledge by the casher that the drawer had in fact dealt with the impostor, and not the named payee, the drawer has generally been allowed to recover in cases based solely on the intent criterion. See *Moore v. Moultrie Banking Co.*, 39 Ga. App. 687, 148 S.E. 311 (1929) (drawer personally knew named payee); *American Surety Co. v. Empire Trust Co.*, 262 N.Y. 181, 186 N.E. 436 (1933); *Mercantile National Bank v. Silverman*, 148 App. Div. 1, 132 N.Y. Supp. 1017 (1912), affirmed without opinion, 210 N.Y. 567, 104 N.E. 1134 (1914); *Palm v. Watt*, 7 Hun 317 (N.Y. S. Ct., 1876) (drawer personally knew named payee); *Commonwealth v. Globe Indemnity Co.*, 323 Pa. 261, 185 Atl. 796 (1936); see also *Citizens' State Bank of McLean v. Fuller*, 274 S.W. 208 (Tex. Civ. App., 1925). But see *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C.A. 5, 1957); *United States v. Union Trust Co.*, 139 F. Supp., 819 (D. Md., 1956).

²⁸ This also explains why, except in cases like those discussed at pp. 45-46, *infra*, the impostor rule should only be applied in those cases when the impostor has assumed the identity of the payee both in his dealings with the drawer and the person cashing the instrument.

Other impostor cases, in which the casher has not investigated the identity of the impostor, come within the second class of impostor cases which place the loss on the drawer not because of the assumption that the drawer would have identified the impostor as the payee upon inquiry but because it appears that the impostor or swindler either bears the name of the real payee or is generally known by his assumed name in the community to which the check was sent. See, *e.g.*, *United States v. First National Bank & Trust Co. of Asheville*, 92 F. Supp. 356 (W.D. N.C., 1950); *United States v. Liberty Insurance Bank*, 26 F. 2d 493 (W.D. Ky., 1928); *Uriola v. Twin Falls Bank & Trust Co.*, 37 Idaho 332, 215 Pac. 1080 (1923); *Jamieson & McFarland v. Heim*, 43 Wash. 153, 86 Pac. 165 (1906); see also *Slattery & Co. v. National City Bank*, 114 Misc. 48, 186 N.Y. Supp. 679 (1920) (drawer negligently sent check to address of a person with same name as intended payee); *S. Weisberger Co. v. Barberton Savings Bank*, 84 Ohio St. 21, 95 N.E. 379 (1911) (drawer negligently mailed check to Cleveland instead of New York and post office delivered it to person in Cleveland bearing payee's name). In these cases, it may be assumed that the casher could easily have determined upon inquiry in the community that a person bearing the impostor's name received his mail at the address to which the check was sent and that the person endorsing the payee's name was that individual. Accordingly, in these circumstances, as in the cases where a drawer is fraudulently induced to issue and deliver a check to a person in his proper name, it would be unreasonable to require the drawee or other cashing party to guarantee not only

the identity of the payee but also the justness of the claim for which the check was issued.²⁹

D. The Impostor Rule Is Inapplicable to These Cases Since the Conduct of the United States Did Not Impose an Unreasonable Burden of Inquiry on the Appellee Banks.

The foregoing analysis of the impostor cases imposing the loss on the drawer demonstrates, we submit, that they can be distinguished from cases like *National Metropolitan Bank* only on the ground that the conduct of the drawer or drawer-drawee imposed an unreasonable burden of inquiry on the party cashing a check with respect to the payee's identity. None of the bases for so distinguishing an impostor case from *National Metropolitan Bank* are present in these cases however. First, there is no showing here that the party cashing the tax refund checks for the swindlers had any knowledge of the circumstances leading to the issuance or mailing of the checks.³⁰ Second, neither the United

²⁹ The situation is to be distinguished from a case where a check is stolen by a person bearing the payee's name for in that situation the cashing party's ability to uncover the impersonation upon inquiry would in no way be hindered by the drawer's conduct in delivering the check to the impostor.

³⁰ Indeed with respect to each of the 58 checks cashed by the Security-First National Bank, it is patent that the bank was not in the least concerned with those circumstances since it relied, not on the validity of the payee's endorsement, but rather on the second endorsement appearing on each of the checks. Moreover, as noted above, on all except 4 of these checks, the second endorsements were in the real name of one of the conspirators. *Supra*, p. 4. Accordingly, at least with respect to those 54 checks, it would be impossible to show that any bona fide transferee of one of these refund checks from the defrauders could have been led to believe

States or any of its agents would have been able to identify the impostor as the intended payee for they had no knowledge about the payee except the information which appeared on the face of the tax refund checks and the tax returns.³¹ Finally, in the absence of any showing that the alleged impostors had assumed the identity of the named payees in their daily activities and contacts so that an investigation by the banks would have determined that persons bearing the payees' names lived at the addresses given and that the endorser were those persons, it is evident that if the United States is permitted to recover here the burden of inquiry on appellee banks will have been no greater than that in the *National Metropolitan Bank* case and hence not an unreasonable one.³²

that the person with whom he was dealing was the intended payee. Similarly, it appears that the second endorsement on at least 3 of the 7 checks cashed by the Bank of America are also in the true names of one of the conspirators. *Supra*, p. 5.

³¹ See discussion, p. 26, *supra*.

³² The district court gave judgments for appellees only on the ground that there had been no forged endorsements and did not reach the separate defenses of laches pleaded by both appellees in their answers (R. 14; R'. 20-21) or of the limitations provisions of 31 U.S.C. 129 pleaded by the Bank of America (R. 13-14). There is clearly no merit to either of those defenses

First, the limitations provision of 31 U.S.C. 129 that "[n]o proceeding in any court shall be brought by the United States * * * to enforce the liability of any endorser * * * arising out of a forged or unauthorized signature or endorsement upon * * * any check * * * issued by the * * * Treasurer and Assistant Treasurers of the United States, or by disbursing officers and agents of the United States, unless such proceeding is commenced within six years after the presentation to the Treasurer of the United States * * * of such issued checks * * * for payment of such check, * * * or unless within that period written notice shall have been given by the United States or an agency thereof to such endorser * * * of a claim on account of such liability * * *" are clearly inapplicable to the *Bank*

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the judgments of the District Court were erroneous and should be reversed.

GEORGE COCHRAN DOUB,
Assistant Attorney General,

LAUGHLIN E. WATERS,
United States Attorney,

SAMUEL D. SLADE,
PETER H. SCHIFF,
Attorneys,
Department of Justice,
Washington 25, D. C.

JANUARY, 1959.

of America case in which they were pleaded. For there the checks were all presented for payment in March or April of 1949 (R. 4) and demands for repayment were made by the United States "[u]pon discovery that a fraud had been committed, on or about October 14, 1949, and January 11, 1950," (R. 16, 21)—within the six-year period allowed by the statute.

Second, neither of the appellees pleaded any facts in support of their laches defenses to show specific damages resulting from the alleged failure of the United States to give prompt notice after discovery of fraud. Since the Supreme Court has held that when the signature of the payee on a Government check is forged an endorser is not relieved of liability because of the drawee's failure to give prompt notice after learning of the forgery unless there is a clear showing that the drawee's delay in notification caused damage to the endorser and that damage occasioned by delay must be established and not left to conjecture, the laches defense must necessarily fail here. *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943). See *United States v. Peoples National Bank of Chicago*, 249 F. 2d 637 (C.A. 7, 1957).

Nos. 16164 and 16165

**In the United States Court of Appeals
for the Ninth Circuit**

UNITED STATES OF AMERICA, APPELLANT,

v.

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION,
APPELLEE

UNITED STATES OF AMERICA, APPELLANT,

v.

SECURITY-FIRST NATIONAL BANK, APPELLEE

ON APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL
DIVISION

BRIEF FOR THE UNITED STATES

GEORGE COCHRAN DOUB,

Assistant Attorney General,

LAUGHLIN E. WATERS,

United States Attorney,

SAMUEL D. SLADE,

PETER H. SCHIFF,

Attorneys,

Department of Justice,

Washington 25, D.C.

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JUN 19 1959



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**In the United States Court of Appeals
for the Ninth Circuit**

No. 16164

UNITED STATES OF AMERICA, APPELLANT,

v.

BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION,
APPELLEE

No. 16165

UNITED STATES OF AMERICA, APPELLANT,

v.

SECURITY-FIRST NATIONAL BANK, APPELLEE

*ON APPEALS FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL
DIVISION*

BRIEF FOR THE UNITED STATES ¹

JURISDICTIONAL STATEMENT

On August 25, 1955, the United States instituted separate suits against appellees to recover \$1,341.08, plus interest from Bank of America and \$9,719.15, plus

¹ An order by the Chief Judge filed on December 10, 1958, granted the Government's motion for permission to file a single brief for the above-captioned appeals.

interest, from the Security-First National Bank, which the Treasurer of the United States had paid to appellees upon 7 and 58 checks, respectively, bearing allegedly forged signatures of the payees, who in each instance were fictitious or nonexistent (R. 3-9; R'. 3-14).² The jurisdiction of the district court over the actions rested upon 28 U.S.C. 1345. On June 3, 1958, the United States District Court for the Southern District of California, Central Division, entered judgments against the United States (R. 18-20; R'. 30-31). On July 25, 1958, the United States filed notices of appeal (R. 22; R'. 31-32). The jurisdiction of this Court rests upon 28 U.S.C. 1291.

STATEMENT

The facts found by the court below were stipulated by the parties and may be summarized as follows:

a. *The Security-First National Bank* case—During the year 1949 and prior thereto, Arthur H. Lange, Aline Lange Lee, a real estate broker of Los Angeles, and her son and other members of her family³ entered

² "R. —" refers to the record in the *Bank of America* case, No. 16164; while "R.'" refers to the record in the *Security-First National Bank* case, No. 16165.

³ In August, 1950, Aline Lange Lee and several members of her family, Augustus C. Flemmings, Jr., Harold R. Washington, Celeste C. Flemmings, Dorothy Mae Flemmings, and Theodore W. Lange, Jr., were convicted on pleas of *nolo contendere* and sentenced for conspiracy to defraud the Government with respect to false claims pertaining to the scheme of seeking the return of tax refunds alleged to be due on the basis of fictitious and fraudulent representations. S.D. Calif., Cr. Nos. 21012, 21013, 21014, 21015, 21016, 21018, respectively. Tony R. DeHart, another member of Aline Lange Lee's family, was convicted on a plea of guilty and sentenced for the same conspiracy on February 27, 1950, S.D. Calif., Cr. No. 21017.

into a scheme to defraud the United States pursuant to which they caused to be prepared fictitious "W-2" forms concerning salary and tax withheld by alleged employers and then filed income tax returns with the "W-2" forms attached in the names of the fictitious tax payers (R'. 28).⁴ These returns and forms were prepared in such a way as to indicate that a refund on income tax was due and payable to the respective fictitious persons whose names appeared on the fraudulent returns (R'. 22). The names used on the fraudulent "W-2" forms and tax returns were fictitious in each instance (R'. 28). These income tax returns and accompanying withholding statements were filed with the District Director of Internal Revenue (R'. 28). The United States Treasury upon receipt of these returns issued each of the checks sued upon without first checking the records to determine whether the taxes claimed to have been paid had in fact been withheld or without otherwise making any investigation with respect to the tax returns or withholding statements (R'. 28-29).⁵ The refund checks were drawn and made payable to the various fictitious payees and were mailed to the addresses given in the income tax returns (R'. 29). Each of the checks was endorsed by

⁴ As the court found, the Internal Revenue laws of the United States at the time involved in this case and at present provide that employees should receive at the end of each calendar year "W-2" forms from each employer, indicating thereon the amount of income paid by the employer to the employee, the amount of Social Security withheld and the amount of income tax withheld. The "W-2" form is filed by the employee together with his income tax return. If the amount of income tax withheld exceeds the amount of tax the employee must pay for the year, the employee indicates on his return that the excess money is either to be applied to the ensuing year's income taxes or is to be refunded to the employee. (R'. 27-28).

⁵ See fn. 10, *infra*, p. 25.

the person who had signed the tax return showing the overpayment for which a Treasury check was issued to a fictitiously named payee (R'. 29). As may be seen from an inspection of the checks, on 37 of the 58 checks involved in this case the second endorsement was made by the Aline L. Lee Realty Company, 15 by Tony R. DeHart and one each by Harold Washington and Celeste Flemmings.⁶ After second endorsements had been subscribed on all of the checks, they were cashed by appellee bank in the course of business (R'. 29). The checks were thereafter endorsed by the bank in the normal course of business with the statement thereon "All prior endorsements guaranteed" and were presented for payment and paid by the Government's fiscal agent (R'. 29). Upon discovery of the fraud, the United States gave notice thereof to the appellee bank with respect to all of the checks involved, demanding repayment in the amount of \$9,719.15 which the bank has refused to make (R'. 29-30). The district court held that the appellee bank was not liable to the United States upon its guarantee of prior endorsements because of the view that the endorsements of the payees' names were not forged (R'. 30).

b. *The Bank of America case*—This case involves 7 fraudulently procured tax refund checks issued to 7 different fictitious or nonexistent payees (R. 13, 19-20). These checks were issued on the basis of fraudulent income tax returns filed with the United States in the names of the payees on the checks in question (R. 20).

⁶ The checks reproduced at pp. 11, 12 and 13 of the record (R'.) in this case are representative of these second endorsements. Thus, at least 54 of the second endorsements were made by or on behalf of Aline Lange Lee and her family.

Each of the income tax returns showed that the fictitious taxpayer was entitled to a refund (R. 20). Upon receipt of the false and fraudulent returns, and relying solely on them, the United States issued the 7 checks in question and mailed them to the names and addresses listed in the false tax returns (R. 20). Each of the checks was endorsed by the person who had signed the tax return on the basis of which the refund check was issued (R. 20). Prior to the time that the checks were deposited in appellee bank at least a second endorsement was added after the endorsement in the payee's name.⁷ Thereafter, the bank in due course endorsed the checks "All prior endorsements guaranteed" and presented them for payment which was made by the Government's fiscal agent (R. 21). Upon discovery of the fraud, the United States gave notice thereof to the appellee bank in October 1949 and January 1950 and demanded return of the amount of the checks, a total of \$1,341.08 (R. 21). Appellee has refused to make such payment (R. 21). The district court held that the "impostor rule" was applicable in this case and that the endorsements of the payees' names on the checks were not forgeries so that the United States was not allowed to recover (R. 21).

SPECIFICATION OF ERRORS

(1) In each case the district court erred in holding that appellee bank was not liable to the United States upon its guarantees of prior endorsements.

⁷ This may be seen upon inspection of the checks, one of which has been reproduced in the printed record (R. 9). The names of Tony R. DeHart and Dorothy Mae Flemmings, two of the conspirators involved in the *Security-First National Bank* case, fn. 3, *supra*, p. 2, appear on 3 of the checks.

(2) In each case the district court erred in entering judgment for appellee bank.

(3) The district court in the *Bank of America* case erred in holding that the "impostor rule" is applicable to the facts of that case.

SUMMARY OF ARGUMENT

There is unquestioned here the basic rule that the drawer who pays a check upon a forged endorsement of a payee may recover from one who receives payment, for such payment has been made in mistaken reliance upon the representation of the presenter that he has title. The court below, apparently on the basis of the decision in *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C.A. 5, 1957) which related to an almost identical fact situation, avoided this rule by holding that the endorsements of the payees' names, which were fictitious or nonexistent, by the persons who had fraudulently induced the Government to issue the checks upon the basis of false and fraudulent income tax returns were not forgeries. The United States contends that the impostor rule, upon which the court relied, is not applicable to the facts of the present cases.

In Point I we show that in all essential respects these cases cannot be distinguished from *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), and related cases. Those cases make it clear that even the drawer's negligence in failing to prevent or discover fraud in the issuance of checks does not in itself afford a reason for relieving a presenting bank of liability for breach of a guaranty of prior endorsements since a drawer or drawer-drawee, such as United States here, owes no duty to persons volunteering to cash or collect

checks to protect them against the fraudulent issuance of a check or the consequent forgery of the payee's signature thereon. The rule of *National Metropolitan Bank* that the drawer owes no duty to the cashing or presenting bank is grounded on policy considerations which are equally applicable to the facts of the present cases. A bank need not accept a check, and before it does it can assure itself of the validity of the instrument or the responsibility of the endorser who tenders it. As a matter of banking practice, the cashing bank is not concerned with the circumstances of a check's issuance or delivery which are not known to it and can safely cash a check only on the assumption that one with whom it deals will make it good if necessary. Consequently, to afford the bank a defense against repayment because of circumstances which play no part in its determination to take the check would give it a windfall. And as recognized by the Supreme Court in *National Metropolitan Bank*, a contrary rule would diminish the desirability of negotiable paper to drawers. While recovery may be precluded when the drawer's conduct affirmatively misleads, or perhaps even if it could mislead, a person into cashing a check for a swindler, such circumstances have not been shown to exist in the present cases. The appellee banks were in no way apprised of any dealings between the alleged impostors and the Government and, indeed, cashed all of the checks only after second endorsements had been added, in most instances by the defrauders themselves. Moreover, if an inquiry had been made as to the identity of the payee either by appellee banks or any of the few prior bona fide endorsers, there is nothing to even suggest that any act of the United States or its agents

would, or could have, misled an inquirer into believing that any of the defrauders were the named payees.

In Point II we demonstrate that the so-called impostor rule may not properly be applied to the facts of these cases. The United States contends that the impostor rule, in imposing the loss resulting from the successive frauds of the same person on the drawer, may be applied as a matter of federal law only if the result is compatible with the Supreme Court's *National Metropolitan Bank* case and affords a rational basis for decision. The rule has generally been applied for a combination of reasons, many of which do not provide either a logical or appropriate basis for reliance on the rule. Thus, the actual or dominant intent criterion, frequently referred to as the principal ground for the rule, is demonstrably artificial, illogical and irrational and hence an unsatisfactory standard. Moreover, it is not apparent why it is necessary to look beyond the face of the instrument to determine the drawer's intent in the impostor cases and not otherwise. A number of other reasons frequently used to explain the impostor rule are necessarily inconsistent with *National Metropolitan Bank* because they impose the loss on the drawer primarily because he was negligent in permitting himself to be defrauded and should bear the loss because he first set in motion the machinery which ultimately resulted in the loss, even though the drawer's conduct did not mislead any person into cashing the instrument.

We recognize, however, that an analysis of the impostor cases which place the loss on the drawer does disclose a policy basis underlying those cases distinguishing them from the rule of *National Metropolitan*

Bank. For the rule has generally been applied against the drawer only in those instances where it has been felt that the drawer's conduct has imposed an unreasonable burden of inquiry with respect to determining the identity of the payee on the first bona fide transferee of the instrument from the impostor. In many cases, particularly those in which the dealings between the drawer and impostor have been by correspondence only, the casher has actually known of the dealings between the drawer and impostor leading to the issuance and delivery of the instrument. This element is neither shown nor claimed to be present here. In other impostor cases it has been assumed that if the casher had made even a most careful inquiry about the payee's identity, the impostor would have been identified as the payee and this identification would have been made possible because of some conduct by the drawer other than the mere issuance of the instrument. Here, however, there is no basis in the record for assuming that any conduct of the United States or of its agents could have misled the cashing banks into believing that the impostors were the payees even if they had attempted to identify the impostor. For neither the United States nor its agents could have identified any particular individual as the named payees. And in addition it is not shown that the alleged impostors had assumed the identities of the payees except for the purpose of making unwitnessed signatures on the fraudulent tax returns and later the endorsements of the payees' names so that an investigation as to the identity of the payees within the community to which the checks were sent would have disclosed the impersonations and the fraud.

ARGUMENT

Certain undisputed principles underlie all suits to recover payments made upon a check bearing a forged endorsement. The drawer who calls upon the drawee to pay to the order of a named payee expects that payment will be made only as ordered; if the payee's endorsement is forged and the instrument is paid by the drawee to the forger or to an innocent transferee, the drawee has not paid according to the directions of his drawer and may charge the latter's account. *Continental National Bank & Trust Co. v. Olney National Bank*, 33 F. 2d 437 (C.A. 7, 1929). See *First National Bank v. Whitman*, 94 U. S. 343, 346-347 (1876); *Leather Manufacturers' Bank v. Merchants' Bank*, 128 U.S. 26, 34 (1888); Brannan, *Negotiable Instruments Law* (7th ed., 1948), p. 445. The drawee, who paid the check in reliance upon the presenter's express or implied representation that he could give a valid discharge because title to the instrument had properly been vested in him, may in turn recover from the presenter the money thus paid without consideration, even though the latter is innocent of wrong. *Leather Manufacturers' Bank v. Merchants' Bank*, 128 U.S. 26 (1888); *Security Savings Bank v. First National Bank*, 106 F. 2d 542 (C.A. 6, 1939); Brannan, *Negotiable Instruments Law* (7th ed., 1948), pp. 447-451. And this right of recovery against the presenter exists where the drawer and drawee are the same, for example, two agencies of the United States, as is the case here. *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945); *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943).

The applicability of these unchallenged rules to these cases was avoided by the determination of the court below that the endorsements of the payees' names on the checks involved here were not forgeries because of the so-called impostor rule. The court did not file an opinion in either case. Presumably the court regarded the split decision of the Court of Appeals for the Fifth Circuit in *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (1957), which applied the impostor rule to facts indistinguishable from those involved here, as controlling, or at least persuasive, authority. There, Howard, a United States Deputy Tax Collector, prepared false "W-2" forms and accompanying tax returns which claimed refunds in the names of 109 nonexistent persons. As a result, refund checks were issued to the persons named on the tax returns and mailed to the addresses indicated on the tax returns. The checks were then obtained, as here, by the defrauder in an unexplained manner. He there-upon endorsed each of the checks in the name of the payee and added a second fictitious endorsement on all but three of the checks before depositing them in various bank accounts. The majority, in reversing the district ^{Court} judgment which had deemed *National Metropolitan Bank* to be controlling, held that the United States must have intended Howard to be the payee because he was the one who had submitted the papers on the basis of which the refund checks were issued and also that the "necessity for unfettered circulation of the Government's negotiable paper" would forbid placing the loss on the banks who had guaranteed the genuineness of prior endorsements. 250 F. 2d at 118. Judge Rives dissented. It is our position that

Atlantic National Bank was incorrectly decided and should not be followed by this Court.

I

The Rule of *National Metropolitan Bank v. United States*, 323 U. S. 454, Is Controlling and Requires a Reversal of the Judgments Below

The decision below, in holding that the endorsements of the payees' names were not forgeries, is inconsistent with the controlling decision of the Supreme Court in *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), and the decisions in the Courts of Appeals for the District of Columbia and Second Circuits in *Washington Loan & Trust Co. v. United States*, 134 F. 2d 59 (C.A.D.C., 1943), and *Onondaga County Savings Bank v. United States*, 64 Fed. 703 (C.A. 2, 1894). These cases have clearly established as the federal rule that where the Government is induced by fraud to issue a check to a fictitious or nonexistent payee or to a real person who has no knowledge of the fraud, and the endorsement in the name of the designated payee is made by the person fraudulently inducing the issuance of the check, the endorsers will not be relieved of their contracts guaranteeing the genuineness of prior endorsements solely on the ground that the issuance of the check was procured through fraudulent devices which the drawer had failed to detect prior to the issuance and delivery of the check. While we recognize that recovery may be precluded when the Government's negligence is of an affirmative character and directly affects the conduct of the cashing or presenting bank, there is here neither claim nor showing that appellees were induced by any conduct of the United States, other than by the issuance of the checks,

to present the checks and collect the proceeds and turn them over. But, as previously noted, the Fifth Circuit in the *Atlantic National Bank* case, which is indistinguishable on its facts from the present case, stated that the *National Metropolitan Bank* case was not at variance with its decision for the reasons given in its earlier opinion in *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949). There the court had ruled that, for the purpose of determining whether an impostor's endorsements of the payee's name were forgeries or not, "[t]he real question [was] whether these signatures are forgeries, or mere steps in a fraud" (175 F. 2d at 272), and had concluded that the *National Metropolitan Bank* case involved forgeries, ignoring the fact that the checks in that case had been issued as a result of the fraud of the person who forged the signatures of the payees' names. And although the United States in the *Atlantic National Bank* case also relied on the *Washington Loan & Trust Co.* and *Onondaga County Savings Bank* cases, *supra*, the opinion did not attempt to distinguish those cases. We believe that an examination of the facts in the cases rejected, explicitly or by silence, as controlling by the Fifth Circuit and necessarily by the court below, as well as of the policy supporting their results, leaves no doubt but that the rule of those cases is controlling here and requires a reversal of the decision below.

A. *The Decisions in National Metropolitan Bank and Related Cases.*

In *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), the action was brought by the United

States to recover the sum of payments made upon 144 Government checks. The facts, which were fully stated in the Court of Appeals opinion at 142 F. 2d 474-475, show that the checks were issued as a result of the fraud of James H. Foley, a civilian clerk in the Headquarters office of the Paymaster of the United States Marine Corps in Washington, D. C. He was assigned to prepare officers' pay and mileage vouchers, to prepare checks in payment thereof, to present the checks for signature by the Paymaster or other disbursing officers duly authorized to draw checks on the Treasury, and to deliver the signed checks to the named payees. During a period of twenty-eight months, Foley forged pay and travel mileage vouchers, together with the necessary supporting travel orders, and prepared 144 Treasury checks for payment of the amounts of the forged vouchers and orders. In the ordinary course, he presented the checks to the Paymaster, who signed them. All were payable to one or another of sixteen actually existing Marine officers stationed in Washington, none of whom was entitled to the proceeds of the checks or had any knowledge of the fraud. The signed checks were returned to Foley for distribution to the several officers, but Foley, instead of delivering the checks, forged the signatures of the payees, added his own name as second endorser, and cashed or deposited them with the Anacostia Bank of Anacostia, District of Columbia. That Bank made no investigation of the genuineness of the payees' signatures, but took the checks in reliance on Foley, stamped them with the endorsement—"Pay to the order of any Bank for collection." The presenting bank likewise so endorsed

the checks, presented them to the Treasury and received payment. The Supreme Court, affirming the decision of the Court of Appeals for the District of Columbia at 142 F. 2d 474, held that the negligence of the drawer-drawee in failing to discover fraud prior to the issuance of the checks did not absolve the guarantor of prior endorsements from liability in cases where the prior endorsements have been forged. In reaching this result the Court said (323 U.S. at 458):

There is nothing here to support the petitioner's contention that the government's conduct in issuing the checks prompted it to guarantee the payee's endorsement. Such a guarantee no more results from the issuance of government checks than any other checks. Government regulations concerning payment of its commercial paper point the other way. Treasury Regulations have made guarantee of prior endorsements a prerequisite to payment. 31 C.F.R. 202.33. This guaranty was a protection which the government sought not only as to checks which were issued in due course for a valuable consideration, but as to checks which might have been irregularly issued. That the administrative officers failed fully to perform their duty is no reason why the government should be deprived of the advantage of a guarantee independently made by one who was not under compulsion of any kind to make it. No equitable principles require that one who, for his own reasons, guarantees a payee's signature after issuance of a check, shall be relieved of his voluntarily assumed obligation because others who owed the government

obligations had previously defaulted in their obligations.

In *Washington Loan & Trust Co. v. United States*, 134 F. 2d 59 (C.A.D.C., 1943), the United States sued to recover the amount paid to defendant banks on 1072 Treasury checks which had been issued as the result of a fraudulent scheme perpetrated by a person named Stitely, who was chief of the voucher unit of the accounts section of the Park Service. It was his duty to prepare bi-monthly payroll vouchers in the names of employees of the Service, present them to the disbursing officers and receive and distribute the checks payable to such employees. For four years Stitely made up fraudulent payroll vouchers for fictitious and non-existent employees of an imaginary Civilian Conservation Camp. These he took to the office of the Chief of Finance each pay day and received checks payable to the persons on the legitimate and also on the fraudulent payrolls. The checks on the fraudulent payrolls he retained, forged the signatures of the payees and cashed or deposited them to his account in one of the banks, defendants in the suit. In the course of its decision in favor of the United States, the court expressly held that the case did not fall within the impostor rule. While the Supreme Court made no reference to the impostor rule in the *National Metropolitan Bank* case, it should be observed that the Court of Appeals decision affirmed in that case expressly followed its earlier decision in *Washington Loan & Trust Co.*, including the holding with respect to the inapplicability of the impostor rule. 142 F. 2d 474, 475-476.

In *Onondaga County Savings Bank v. United States*, 64 Fed. 703 (C.A. 2, 1894), the Government sued to

recover the amount paid out on several fraudulently procured pension drafts. A pension certificate was issued and sent to Alma Wood although she had died several weeks earlier. Soon thereafter vouchers, purporting to be signed by Alma Wood and accompanied by fraudulent affidavits and certificates, were submitted and the drafts were issued on the basis of the proofs containing the forged signatures of Alma Wood. Alma Wood's endorsement as payee was then forged on the drafts in the same handwriting as that which appeared on the proofs upon which the pension agent had issued the drafts. The defendant bank cashed the drafts for Sylvester Wood, her husband, who added his name as a second endorsement. In making this payment, the bank relied on the identification of Sylvester Wood and of the signature of "Alma Wood" by one of the bank's depositors who accompanied Sylvester Wood to the bank and was personally known to the officers of the bank. In holding for the United States, the court stated (64 Fed. at 704-705) :

* * * The government had a right to rely upon the fact that the assistant treasurer would pay out no money on the draft except to Alma Wood personally, upon proof of her identity, or to some responsible person presenting her indorsement and gauranteeing its genuineness; and it is no defense to a claim that an indorsee who has, by a forged indorsement, received from the drawee money to which he is not entitled, shall refund the same, to show that the same person who deceived him into paying money on the forged indorsement of the draft also induced the government to issue the draft on a forged signature to the voucher.

On the back of the drafts was printed the following notice:

“The payee’s indorsement on this check must correspond with the signature to the voucher for which the check was given. If the payee cannot write, his or her mark should be witnessed, and the witness state his or her residence in full.”

It is contended that the effect of this is to make the draft payable, not to the individual named as payee, but to whoever might indorse it with the same signature as that affixed to the vouchers. There is no force in this contention. The notice was, as the district judge held, intended only to insure greater accuracy and precision, and was for the benefit of all who might thereafter deal with the drafts. The requirement that Alma Wood should indorse the drafts with the same signature with which she signed the vouchers did not operate to change the designation of the payee. It was still the “order” of Alma Wood, and of Alma Wood only, which was required to authorize the payment of the money to any one other than herself. Moreover, it in no way misled or deceived the bank, which made no effort to ascertain whether or not the signature corresponded, but cashed the drafts on the simple assurance of its depositor that the signature of Alma Wood was correct.

The *Onondaga* case was cited with the approval by the Supreme Court in *United States v. National Exchange Bank of Providence*, 214 U.S. 302 (1909).⁸

⁸ The *National Exchange Bank of Providence* case, which was expressly followed and adhered to by the Supreme Court in the *National Metropolitan Bank*, also gives support for the proposition

These cases have established a federal rule which is dispositive here. The great majority of state court decisions have also permitted the drawer to recover where, unknown to the drawer, endorsements of the payee's name have been made by the persons causing the checks to be drawn pursuant to false claims or payrolls and no acts of the drawer could have deceived the cashing party as to the identity of the payee. *E.g.*, *Los Angeles Investment Co. v. Home Savings Bank*, 180 Cal. 601, 182 P. 293 (1919); *United States Cold Storage Co. v. Central Manufacturing District Bank*, 343 Ill. 503, 175 N.E. 825 (1931); *McCornack v. Central State Bank*, 203 Iowa 833, 211 N.W. 542 (1926); *Jordan Marsh Co. v. National Shawmut Bank*, 201 Mass. 397, 87 N.E. 740 (1909); *City of St. Paul v. Merchants National Bank*, 151 Minn. 485, 187 N.W. 516 (1922); *American Sash & Door Co. v. Com-*

that a guarantor of prior endorsements will not be relieved of its obligation solely on the ground that checks are cashed for the person who had also induced the Government to issue the checks by means of fraudulent devices. In that case, the issuance of 194 Government pension checks to some existing payees not entitled to pensions and some dead payees was procured during a period of about ten years by means of fraudulent vouchers which were accepted as genuine by the Government, although its records would unquestionably have permitted discovery of the frauds at some point short of the ten years. The signatures on all of the vouchers were forged. Thereafter, the endorsements of the payees were forged on each check, presumably by a William A. Munson, and the checks were regularly cashed by the National Exchange Bank of Providence, which forwarded them for collection. While the record shows only that all the signatures on both the vouchers and the checks were forged and not that the same person made all the forgeries, a logical inference would seem to be that the person who obtained and cashed the checks had also prepared the fraudulent vouchers. The Supreme Court, in directing a judgment in favor of the United States, held, *inter alia*, that negligence in the issuance of the checks or in discovery of the fraud was not a defense which the bank could interpose.

merce Trust Co., 332 Mo. 98, 56 S. W. 2d 1034 (1933); *Fitzgibbons Boiler Co. v. National City Bank*, 287 N.Y. 326, 39 N.E. 2d 897 (1942); *City of New York v. Bronx County Trust Co.*, 261 N.Y. 64, 184 N.E. 495 (1933); *Strang v. Westchester County National Bank*, 235 N.Y. 68, 138 N.E. 739 (1923); *Shipman v. Bank of the State of New York*, 126 N.Y. 318, 27 N.E. 371 (1891); *Commonwealth v. Globe Indemnity Co.*, 323 Pa. 261, 185 Atl. 796 (1936); see Britton, *Bills and Notes* (1943), pp. 703-709; Note, 99 A.L.R. 439; Contra: *C. E. Erickson Co. v. Iowa National Bank*, 211 Iowa 495, 230 N.W. 342 (1930); *Defiance Lumber Co. v. Bank of California*, 180 Wash. 533, 41 P. 2d 135 (1935). While the applicability of the impostor rule has not been frequently raised or discussed in these cases, the contention was specifically rejected in *Commonwealth v. Globe Indemnity Co.*, *supra*. There a clerk in a department of the Commonwealth of Pennsylvania handling claims for condemnation of tubercular cattle and a confederate, not employed by the state, fabricated papers showing amounts due to various fictitious persons, the false vouchers being prepared by the confederate. The clerk placed the false papers with valid records and the fraud was not discovered by the auditor general or state treasurer or any other official as the records moved from the department of origin to fiscal officers who drew the checks, which were then mailed to the post office addresses stated in the papers. In this way, the swindlers procured the issuance of 116 checks. After obtaining them from the mails by means not shown, as is true in these cases, they endorsed the checks in the names of the payees. The court stated (323 Pa. at 270, 185 Atl. at 800):

It is also obvious from what has been said that the cases of impersonation, the so-called impostor cases, do not help appellant. They depend on the drawer's intention, a test applied by the weight of authority; the drawer is precluded (section 23) by that. If a particular person is intended and designated as payee, it is immaterial to the drawer by what name he is called; he may endorse and payment to him will be good (as was decided in *Land Title & Tr. Co. v. Northwestern Nat. Bank*, 196 Pa. 230, 46 A. 420) because such payment accords with the drawer's intention. But if any intention may be attributed to the Commonwealth in drawing and mailing the checks involved in this case, it is limited by what was stated on the check and by mailing it; there was here no additional evidence of intention such as handing the check to the person intended as, for example, in *Land Title & Tr. Co.'s* case, which precluded the drawer from asserting that it intended the payee to be the person who owned the property and not the person who was present at the settlement, answering to the name of and claiming to be the owner.

Thus, the court which decided *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900), a leading case on the impostor rule,⁹ held the rule inapplicable to facts indistinguishable from those in the present cases.

⁹ See p. 31, *infra*.

B. The Policy of the National Metropolitan Bank Case Has Application to the Facts of the Present Cases.

Strong considerations of policy supported the almost universal rule, which was followed by the Supreme Court in the *National Metropolitan Bank* case, that the drawer owes no duty to protect one who voluntarily cashes a check against the forgery of the payee's signature and consequently that the one cashing a check will not be relieved of his guarantee of prior endorsements on the sole ground that the check was fraudulently procured from the drawer by the forger. No one is compelled to cash a check or to accept an endorsement. The endorsee who does not know the payee and is not satisfied with the genuineness of the endorsement can, and usually will, decline to accept it or to pay out money on the strength of it. Similarly, where a check is submitted to a bank for cashing by an alleged endorsee of the payee (as in the cases at bar), the bank is not required to cash the check; if it does, it relies not upon any representations which could be derived from the fact of the check's issuance, but upon the responsibility and integrity of the person tendering the instrument to it. Checks are not likely to be cashed for an unidentified stranger, regardless of the reputability of the other names on the paper as drawer or payee. And conversely, checks drawn by an unknown maker upon an unknown drawee and endorsed by an unknown payee will readily be accepted by banks which know and are willing to rely upon the person who tenders and endorses the check for deposit or cash. For these reasons, one who pays out money on a check is not concerned with the circumstances of its issuance which are not known to him, nor with what precaution against for-

geries the drawer may have taken before or after emitting the check. If the payee's endorsement is forged and loss occurs, it is the "neglect or error" of the cashing or collecting bank in "accepting the forger's signature which occasions the loss," *Clearfield Trust Co. v. United States*, 318 U.S. 363, 370 (1943), unless the drawer's lack of precaution has made it impossible, as a practical matter, for the bank to discover the forgery.

Were a contrary rule to obtain, facts unknown to a cashing bank and upon which it did not and could not rely would enable it to evade the expected result of its mistaken reliance upon the integrity or responsibility of those with whom it deals. If a check payable to the order of a named payee is stolen or lost and the endorsement forged, the loss unquestionably falls upon him who accepts the endorsement and thereafter negotiates the paper or collects it. As long as the conduct of the drawer could not mislead the cashier, the situation is outwardly no different where the issuance of a check is procured by fraud and the payee's signature is forged; in both cases the drawer's direction that the drawee should pay to the order of a designated person, or the drawer-drawee's intention so to pay, has not been satisfied. Moreover, to give the cashing bank the benefit of circumstances which had no bearing upon the bank's election to accept the check would merely bestow a windfall upon it. It could not count on the defense of the drawer's failure to adopt adequate precautions; hence the bank would have to take identical precautions in all cases—*i.e.*, to satisfy itself of the responsibility of the tenderer of the check, or to identify the payee's signature. If the checks should later prove to involve

some negligence on the part of the drawer, the cashing bank would unfairly be afforded the benefit of something which was of no concern to it and which could not have been taken into account when it accepted the check.

The rule of *National Metropolitan Bank* recognizes the fact that drawer would be unwilling to risk the free use of checks if the result of any negligence, however slight, were to relieve the person accepting an endorsed check and paying out cash thereon of the responsibility to ascertain at his peril that the endorsements are genuine. The considerations supporting this belief were excellently summed up by the Court of Appeals of New York in *Gallo v. Brooklyn Savings Bank*, 199 N.Y. 222, 226, 92 N.E. 633, 634 (1910) :

* * * Corporations, some of them numbering their stockholders by thousands, and usually ignorant of their identity and signatures, pay their dividends by checks to the orders of the various stockholders, transmitted by mail, relying on their right to reclamation from the banks in case the checks have been indorsed or collected by persons not entitled thereto. So, also, a person will send by post to the most distant part of the country his check to the order of another person to whom he wishes to pay or transfer money, confident in the knowledge that the abstraction of the check can entail no loss on him. On the continent of Europe a different rule prevails, and payment by the drawee to a party presenting the same, of a bill drawn to order, is valid, even though the indorsement is forged, provided the drawee acts in good faith and without negligence. In England the common-law rule prevailed as to bills (but not as

to checks) until the Bills of Exchange Act of 1882, which adopted the continental rule as to sight bills, but not as to time bills, though a limited protection against forgery of the name of the payee may be had by "crossing". Such a rule would render the present business methods of this country impossible. Although at times banks have complained of the harshness of our rule, and in some instances while acting in good faith have been subjected to severe loss (*Shipman v. Bank of the State of N.Y.*, 126 N.Y. 318, 27 N.E. 371, 12 L.R.A. 791, 22 Am. St. Rep. 821), as a result of this rule banks are used by all classes of our people for the deposit of funds and payment is made by check to an extent unknown elsewhere. Of course a party entitled to the receipt of money may insist upon its payment in cash and not by check.¹⁰

The foregoing considerations are fully applicable to the present cases. It is apparent that the appellee banks in cashing the checks did not rely upon any representations as to the identity of the payees which might have been derived from the fact that the checks had been issued and delivered to the named person since with respect to each check a second endorsement had been

¹⁰ In this respect it should be noted that, according to information received from that Treasury, the United States cashed approximately 38 million refund checks in the fiscal year 1949 (when the checks here involved were paid) and 36 million such checks in fiscal year 1958. The volume of refund checks and the obvious desirability of making speedy payments to the taxpayers, show that the Treasury would be faced with an impossible task if, prior to issuing each refund check, it attempted to determine the existence of each payee because it could not rely on persons cashing such checks to seek proper identification from alleged payees.

added when the instrument was tendered for payment. Though appellee banks do not seem to be in any position to assert the possible rights of any prior endorers who may have taken the checks in good faith reliance on a defrauder's endorsement of payee's name only,¹¹ it is not amiss to point out that there is nothing in the record to suggest that such endorers were, or could have been, misled by the United States as to the identity of the payees. If the disbursing agent had been asked to identify the physical person claiming to be any one of the named payees, he would have been unable to do so inasmuch as his knowledge about the payee was limited to the information that appeared on the fraudulent tax return—namely, the payee's name and address as it appeared on the face of the check and also the name and address of the supposed employer (R. 28-29, R'. 20). And since it is not suggested that the assumption of the payees' names by one of the conspirators was manifested by any acts other than the unwitnessed signing of the fraudulent income tax returns and the endorsement of the checks in the names of the payees, the ability of those cashing the checks to identify the payees in these cases upon the basis of information furnished by the Government was no greater here than in the *National Metropolitan Bank* case.

While we have no quarrel with the general proposition stated by the *Atlantic National Bank* case that "it subjects banks to unreasonable burdens against

¹¹As noted above, p. 4, on at least 54 of the 58 checks cashed by the Security-First National Bank and on at least 3 of the 7 checks cashed by the Bank of America, one of the conspirators added a second endorsement which was genuine and upon which the banks necessarily relied in cashing the checks.

which they could not reasonably protect themselves short of a complete embargo on Government checks to hold them not only to a guarantee that an existing person named and intended as payee has signed the endorsement, but that the very person named and in that name and no other, had a just claim against the Government for which the check was issued" (250 F. 2d at 118) and believe that it suggests the basic policy for the impostor rule,¹² it does not afford a basis for ignoring the result and policy of the *National Metropolitan Bank* case in these cases or in the *Atlantic National Bank* case since, unless the conduct of the drawer either misleads, or at least might have misled, the banks into cashing a check for a defrauder, the burden on the banks, as we have shown, is no greater here than in *National Metropolitan Bank*.¹³

¹² See discussion, pp. 35-46, *infra*.

¹³ It is not significant that here the names of the payees were fictitious or nonexistent while in the *National Metropolitan Bank* case the names of living persons not entitled to reimbursement and without knowledge of the fraud were used. For, as is stated in Brannan's *Negotiable Instruments Law* (7th ed., 1948, at pp. 334-335):

* * * when a maker believes that the payee is a real person, even if his signing and putting into circulation the instrument payable to a fictitious or nonexisting payee is held to be an admission that the payee is a real person, this does not show that the maker expects and intends the instrument to pass as if made to bearer. Quite the contrary, he intends it to pass only by endorsement, and if there is no such person as the payee, it simply can not pass at all. Any other rule is illogical and unjust, for the person taking an instrument purporting to be payable to a person without indorsement is not entitled to consideration, and if it is indorsed by some one in the name of the fictitious or nonexisting person the loss to the buyer of such an instrument is not due to the fact that the payee is fictitious or nonexisting, but to the fact that the instrument is indorsed by someone who is not authorized to indorse it, either by the maker or by the terms of the instrument, and the

II

The Impostor Rule Is Not Applicable to the Present Facts

While the so-called "impostor rule" may in some cases justify placing the loss resulting from successive frauds on the drawer, it is our position that neither precedent nor reason call for its application to facts of these cases. Particularly in view of the Fifth Circuit's decision in the *Atlantic National Bank* case applying the impostor rule to an almost identical fact situation, the rationale and scope of that so-called "rule" must be examined in detail. Since *Security-First National Bank v. United States*, 103 F. 2d 188 (C.A. 9, 1939), the only case involving the impostor rule decided by this Court, was expressly based on the law of California, rather than on federal law,¹⁴ this Court is free to examine the impostor rule critically and to determine when and for what reasons it should be applied as a matter of federal law.¹⁵

The impostor rule stands for the proposition that where the drawer delivers a negotiable instrument to an impostor as payee, supposing that the impostor is the

indorsee is in such a case no worse off than in the case of the forgery of the indorsement of the name of a real person.

Acceptance of this principle by the courts is illustrated by the *Washington Loan & Trust Co.* case where the names of all of the payees were fictitious or nonexistent.

¹⁴ In 1943, the Supreme Court in *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943) held that the rights and obligations of the United States on commercial paper issued by it must be determined on the basis of federal, not state law, and thereby resolved the conflict among the courts of appeals on that choice of law question.

¹⁵ The Supreme Court has never examined the impostor rule and, of the Courts of Appeals, only the Fifth and Tenth Circuits have applied the rule as a matter of federal law.

person he has falsely represented himself to be, the impostor's endorsement is regarded as a genuine endorsement as to subsequent holders in good faith. See, e.g., *Security-First National Bank v. United States*, 103 F. 2d 188, 190 (C.A. 9, 1939). The endorsement by the impostor is either deemed not to be a forgery or else the drawer is precluded from asserting the forgery. These alternative views stem from the fact that at common law and under Section 23 of the Uniform Negotiable Instruments Law¹⁶ a signature which is "forged or made without authority of the person whose signature it purports to be" may not be wholly "inoperative" but may, on the contrary, confer a right against a party to a negotiable instrument if "the party against whom it is sought to enforce such right, is precluded from setting up the forgery or want of authority." But, as recognized by the Court of Appeals of New York, a "distinction between a case where there has been no forgery or want of authority and a case where a party against whom it is sought to enforce a right is 'precluded from setting up the forgery or want of authority' seldom carries any practical consequences; and the courts may at times ignore distinctions in thought which carry no practical consequences." *Cohen v. Lincoln Savings Bank*, 275 N.Y.

¹⁶ Section 23 of the Uniform Negotiable Instruments Law provides:

When a signature is forged or made without the authority of the person whose signature it purports to be, it is wholly inoperative, and no right to retain the instrument, or to give a discharge therefor, or to enforce payment thereof against any party thereto, can be acquired through or under such signature, unless the party, against whom it is sought to enforce such right, is precluded from setting up the forgery or want of authority.

399, 404, 10 N.E. 2d 457, 459 (1937). Thus, in many opinions, the question of whether a challenged endorsement of the name of the payee has been made by the person who was intended by the drawer to be the payee seems to have become obscured and confused with the question of whether a party against whom a right is asserted is "precluded" from setting up the forgery.¹⁷ Indeed, most of the cases normally cited for the impostor rule have been based both on the ground that there was no forgery and that the drawer was precluded from asserting it.¹⁸

A. The Doctrine of Actual or Dominant Intent Does Not Afford a Satisfactory Reason for Application of the Impostor Rule and Is An Unworkable Test.

It has frequently been said that the principal ground adopted in the cases supposed to enunciate the impostor rule is that the bank in paying the impostor has merely carried out the drawer's actual intent. See, e.g., *United States v. First National Bank of Prague*, 124 F. 2d 484, 487 (C.A. 10, 1941); Britton, *Bills and Notes* (1943),

¹⁷ See, e.g., *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949); *Central National Bank v. National Metropolitan Bank*, 31 App. D.C. 391, 17 L.R.A.(n.s.) 520 (1908); *Montgomery Garage Co. v. Manufacturers Liability Insurance Co.*, 94 N.J.L. 152, 109 Atl. 296 (1920).

¹⁸ It is of interest to note that in *United States v. First National Bank of Prague*, 124 F. 2d 484 (C.A. 10, 1941), the court cited many of the same cases both for the proposition that payment to an impostor "merely effectuates the intent of the drawer" (124 F. 2d at 487) and then for the estoppel proposition that "as between two innocent persons, both of whom are victims of fraud, the burden must fall upon the one whose negligence first facilitated and made possible the loss." (124 F. 2d at 488). There the latter consideration was deemed controlling and in the circumstances involved the United States prevailed against the presenting bank.

p. 724. This result is often explained by stating that the drawer has a dual intent, first that he intends to make the instrument payable to the impostor with whom he deals, either in person or by means of correspondence, and second, that he also intends to make it payable to the person whom he believes the impostor to be and that the first intent is dominant. While it is true that in the majority of the so-called impostor cases the drawer has suffered the loss and a statement appears that the drawer intended the impostor to be the payee or that first intent was dominant, a reading of the cases shows that, but with only a few exceptions, the courts have also advanced a variety of equitable considerations in support of the result. This is vividly illustrated by *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900), a leading impostor case, where the court states (196 Pa. at 234-235; 46 Atl. at 421):

[The rule that a bank is liable to its depositor when it pays out on a forged endorsement] should not apply when the check is issued to one whom the drawer intends to designate as the payee; first, because in such a case the risk is not the ordinary risk assumed by the bank in its implied contract with its depositor, but a largely increased risk, as it follows that a check thus fraudulently obtained will be fraudulently used; the bank is deprived of the protection afforded by the fact that a bona fide holder of a check will exercise care to preserve it from loss or theft, which are the ordinary risks; there is thrown upon the bank the risk of antecedent fraud practiced upon the drawer of the check, of which it has neither know-

ledge nor means knowledge; secondly, because in such a case the intention with which the drawer issued the check has been carried out * * *.

Moreover, as has often been recognized, even by adherents to the impostor rule, the dual intents of the drawer are so inseparable that the choice of one intent as the dominant one seems to be purely arbitrary. See, *e.g.*, *Dartmouth National Bank of Hanover v. Keene National Bank*, 99 N.H. 458, 115 A. 2d 316 (1955); *Cohen v. Lincoln Savings Bank*, 275 N.Y. 399, 407-408, 10 N.E. 2d 457, 461 (1937); Abel, *The Impostor Payee: Or, Rhode Island Was Right*, 1940 Wis. L. Rev. 161, 362 at 228-233; Note, 34 Harv. L. Rev. 76, 77 (1920); 23 Cornell L. Q. 307, 309 (1938); 15 N.Y.U.L. Rev. 289, 290 (1938); 24 Va. L. Rev. 192, 193 (1937). The unsatisfactory nature of the standard provided by the dominant intention criterion was recognized by both opinions in the *Atlantic National Bank* case. Judge Brown, speaking for the majority, stated that "there is little to breathe into the transaction [leading to the issuance of the tax refund checks] an articulate consensual 'intent' which would characterize more weighty matters or those found in a more primitive society." (250 F. 2d at 117). Judge Rives, in his dissent, asserted that the impostor rule, which the majority had stated in terms of intent, "introduces confusion, requiring the ascertainment of nonexistent intent and almost metaphysical speculation degenerating into mere logomachy." (250 F. 2d at 120).

It is therefore clear that the actual, dominant or subjective intention doctrine does not provide a workable standard for determining whether or not an impostor's endorsement should pass title to a fraudulently

obtained negotiable instrument. Furthermore, there is no necessity in the law of negotiable instruments to look beyond the face of the instrument for the purpose of ascertaining the drawer's intent and, indeed, the general practice in the law of negotiable instruments, except in some of the impostor cases, has been to disregard everything that does not appear on the face of the instrument. See *Cohen v. Lincoln Savings Bank*, 275 N.Y. 399, 412, 10 N.E. 2d 457, 463 (1937). The fact that the intent of the drawer is frequently derived solely from what appears on the face of the instrument is illustrated by cases like *National Metropolitan Bank, Washington Loan & Trust Co., Onondaga County Savings Bank* and *Commonwealth v. Globe Indemnity Co., supra*.

Thus searching for an actual intent, as opposed to the intent which appears on the face of the check, is not only arbitrary and unrealistic in the impostor cases but also unnecessary. The most that can be said for the intention doctrine is that it may provide a "means of rationalization for the purpose of supporting a desired result[,] * * * not the cause of an effect." Note, 15 N.C.L. Rev. 186, 188 (1937). For these reasons, we urge this Court to reject the intention doctrine as a test for determining when the impostor rule should be applied.

B. Several Other Reasons Advanced For the Impostor Rule Are Not Acceptable As a Matter of Federal Law.

In addition to the dominant intent criterion, many of the various reasons that have been advanced, either singly or in conjunction with others, cannot properly

be used to support application of the impostor rule as a matter of federal law since such reasons have now been conclusively rejected by the Supreme Court as a basis for imposing the loss resulting from successive frauds on the drawer in *National Metropolitan Bank v. United States*, 323 U.S. 454 (1945), and *United States v. National Exchange Bank of Providence*, 214 U.S. 302 (1909). Among the reasons so advanced which fall into this category are that by delivering a check to an impostor, the drawer improperly exposes the drawee to an increased risk, because the impostor will undoubtedly practice fraud to induce the drawee to cash the check;¹⁹ that as between two innocent parties, both of whom are victims of fraud, the loss must fall upon the one whose negligence first made possible the loss;²⁰ and that by reason of the negligence of the drawer in allowing himself to be deceived, he is estopped to assert the forgery.²¹

Moreover, the policy in favor of free circulation of commercial paper, with which the majority in the *Atlantic National Bank* buttressed its intent finding and which was the only basis for decision in *Dartmouth*

¹⁹ E.g., *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900); *Boatsman v. Stockmen's National Bank*, 56 Colo. 495, 138 Pac. 764 (1914); *Cureton v. Farmers' State Bank*, 147 Ark. 312, 227 S.W. 423 (1921); *Uriola v. Twin Falls Bank & Trust Co.*, 37 Idaho 332, 215 Pac. 1080 (1923).

²⁰ E.g., *United States v. First National Bank & Trust Co. of Oklahoma City*, 17 F. Supp. 611 (W.D. Okla. 1936); *United States v. National Exchange Bank*, 45 Fed. 163 (C.C.E.D. Wis., 1891); *Crippen, Lawrence & Co. v. American National Bank*, 51 Mo. App. 508 (1892).

²¹ E.g., *J. L. Levy & Salomon v. Bank of America*, 24 La. Ann. 220 (1872); *McHenry v. Old Citizens National Bank*, 85 Ohio St. 203, 97 N.E. 395 (1911); *Hoffman v. American Exchange National Bank*, 2 Neb. Unof. 222, 96 N.W. 112 (1902).

National Bank, supra, cannot, we submit, provide an independent basis applying the impostor rule as a matter of federal law solely on the ground that the first two victims of a fraud should bear the resulting loss inasmuch as precisely that criterion was rejected by the Supreme Court in the *National Metropolitan Bank* case. The distinction which the Fifth Circuit attempted to draw between the facts of the *National Metropolitan Bank* case and in the *Atlantic National Bank* case (250 F. 2d at 118) with respect to the question of negotiability is without merit since it depends on the court's unwarranted supposition that an actual intent to pay the swindler can be ascribed to the Government in the *Atlantic National Bank* case, *supra*, p. 11.

C. Impostor Cases Imposing Loss on Drawer May Logically Be Distinguished from the Rule of National Metropolitan Bank on the Ground that in Those Cases the Drawer's Conduct Imposed an Unreasonable Burden of Inquiry on the Cashier with Respect to the Payee's Identity.

Nevertheless, an examination of the impostor situation cases including both those placing the loss on the drawer and those placing it in the party taking the instrument from the swindler, does suggest a rather consistent policy consideration underlying the double impersonation cases which distinguishes them from cases like *National Metropolitan Bank* and, of greater present importance, also from the cases at bar. A discussion of this policy will demonstrate that the Fifth Circuit's determination of intent on the grounds that there were dealings "of a kind" between the swindler and the United States and that the swindler im-

personated the payee at least in submitting the false tax returns (250 F. 2d at 118) was erroneous not only because of the uselessness of the actual intent criterion but also because it ignored the considerations which give importance to factors of drawer-impostor dealings and dual impersonation of the same person in the impostor cases.

The results in practically all of the dual impersonation²² situation cases may be explained, we believe, on the basis of whether or not it is felt that an unreasonable burden of inquiry with respect to the identity of the payee would be imposed on the first bona fide transferee of the instrument from the impostor if the loss were imposed on such transferee. The impostor cases which impose the loss on the drawer may be divided into two general classes.

1. *Cases in which cashing party has actual knowledge of drawer-impostor dealings.*

The first of these two classes is comprised of those cases in which the first bona fide transferee of the instrument from the impostor in fact knows that the instrument was delivered or meant to be delivered by the drawer to the person seeking payment. In some instances, the drawer, after personally dealing with the impostor and delivering the check to him, has also advised the cashing bank that the person with whom the bank is dealing is the designated payee. See *United States v. First National Bank & Trust Co. of Oklahoma*

²² Most of the so-called "impostor" cases involve impersonation of the payee both for the purpose of obtaining the check from the drawer and then cashing it. In other forgery cases, there is also a single impersonation when the check is cashed.

City, 17 F. Supp. 611 (W.D. Okla., 1936); *Greenberg v. A & D Motor Sales*, 341 Ill. App. 85, 93 N.E. 2d 90 (1950); *Schweitzer v. Bank of America*, 42 Cal. App. 2d 536, 109 P. 2d 441 (1941). Occasionally, the dealings with the impostor have been conducted by the drawer's agent and when the instrument was cashed the agent identified the impostor as the person to whom the check was purposefully delivered. See *Maloney v. Clark & Co.*, 6 Kan. 82 (1870). In other cases, the identification has been made by a person with no knowledge of the fraud whom the drawer would or should have expected to make the identification. See *United States v. First National Bank of Albuquerque*, 131 F. 2d 985 (1942), certiorari denied, 318 U.S. 774 (1943); *Central National Bank v. National Metropolitan Bank*, 31 App. D.C. 391, 17 L.R.A. (n.s.) 520 (1908); *United States v. National Exchange Bank*, 45 Fed. 163 (C.C. E.D. Wis., 1891); *Crippen, Lawrence & Co. v. American National Bank*, 51 Mo. App. 508 (1892); *Hoffman v. American Exchange National Bank*, 2 Neb. Unof. 222, 96 N.W. 112 (1902); see also *McHenry v. Old Citizens National Bank*, 85 Ohio St. 203, 97 N.E. 395 (1911). Or the cashing bank may have been advised by a party on whom the drawer had also relied, but who was presumed by the court to have knowledge of the fraud, that the instrument was delivered to the impostor. See *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949); *Emporia National Bank v. Shotwell*, 35 Kan. 360, 11 Pac. 141 (1886). Finally, there are several cases in which party cashing the instrument, who was not a party to the fraud, knew that the impostor had induced the drawer to issue and deliver the instrument

to the impostor in the belief that he was the named payee. See *Heavy v. Commercial National Bank of Ogden*, 27 Utah 222, 75 Pac. 727 (1904); *Forbes & King v. Espy, Heidelberg & Co.*, 21 Ohio St. 474 (1871); see also *Citizens' Union National Bank v. Terrell*, 244 Ky. 16, 50 S.W. 2d 60 (1932).²³

In those instances where the drawer upon inquiry by the cashier in fact advises the cashier to pay the impostor, the drawer is clearly precluded from asserting forgery. This reflects the fact that the obligation of an endorser on a guaranty of prior endorsements or of a drawee to pay only in accordance with the instructions of the drawer is deemed fulfilled when the drawee or endorser has made as broad an inquiry as to the identity of the payee as the drawer could reasonably expect. Even where the representation as to the identity of the payee is not made by the drawer personally, the facts in the cases cited above are sufficient to support the conclusion that the conduct of the drawer led the cashier, after a reasonable inquiry, to believe that the impostor was the payee. This consideration was adopted by the Fifth Circuit in the *Continental-American Bank & Trust Co.* case as a reason for applying the impostor rule there when it stated (175 F. 2d 272) :

* * * If the banks see that the very person to whom a check was issued and delivered has en-

²³ A number of cases which are ordinarily cited in support of the impostor rule with respect to negotiable instruments, though they do not involve negotiable instruments at all but relate to contracts of a different nature, belong to the same category. *Boatsman v. Stockmen's National Bank*, 56 Colo. 495, 138 Pac. 764 (1914); *Metzger v. Franklin Bank*, 119 Ind. 359, 21 N.E. 793 (1889); *Western Union Telegraph Co. v. American State Bank*, 277 S.W. 226 (Tex. Civ. App., 1925).

dorsed it in the form required, the indorsement is a genuine one, although the name is a wrong one. * * *

It is apparent, therefore, that the policy considerations which compelled the result in the *National Metropolitan Bank* case, are not applicable to any of these cases since that policy has as a premise that the casher has no knowledge of the circumstances of the instrument's issuance.²⁴

2. *Cases in which impostor would have been identified as payee even if reasonable inquiry had been made.*

The second class of impostor cases in which the loss is imposed on the drawer is comprised of cases in which the person cashing the instrument for the impostor has made no inquiry as to his identity but where it was, at least tacitly, assumed by the courts that even if the casher had in fact made the most careful inquiry as to the payee's identity, which could have been expected under the circumstances of each case, the impostor would have been identified as the payee.

In some instances it is expressly assumed that if identification had been sought from the impostor he would have called upon the drawer for such identification and that the drawer would then have identified the impostor as the rightful payee. See, *e.g.*, *Missouri Pacific R.R. v. M. M. Cohn Co.*, 164 Ark. 335, 339, 261 S.W. 895, 896, certiorari denied, 266 U.S. 627 (1924); *Montgomery Garage Co. v. Manufacturers Liability*

²⁴ See discussion, p. 23, *supra*.

Insurance Co., 94 N.J.L. 152, 155, 109 Atl. 296, 297 (1920); *McHenry v. Old Citizens National Bank*, 85 Ohio St. 203, 211, 97 N.E. 395, 398 (1911). While these cases also speak in terms of effectuating the drawer's intent, the criterion used is not the drawer's subjective intent but rather what the drawer would have told the cashing party if an inquiry had been made. For example, in the *Montgomery Garage Co.* case, in which the impostor, who had assumed a fictitious name, was given a check by defendant, the court, in holding for the party who had cashed the check, stated (94 N.J.L. at 155, 109 Atl. at 297) :

* * * In the case at bar, if the plaintiff, before cashing the check, had sent for and asked the drawer whether or not the person presenting the check was the person to whom it was intended to be paid, the answer would have been in the affirmative.

Recognition of this basis for decision also appears in *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900), since the court observed that the impostor could have received payment in cash rather than by check if he had asked for it.

We believe that the foregoing consideration provides the most satisfactory explanation for the cases in which the result was stated primarily in terms of the drawer's intent and the loss was placed on the drawer.²⁵ For

²⁵ For cases of that type see, e.g., *Fidelity & Deposit Co. of Maryland v. Union Trust Co.*, 129 F. 2d 1006 (C.A. 2, 1942); *Meridian National Banks of Indianapolis v. First National Bank of Shelbyville*, 7 Ind. App. 322, 33 N.E. 247 (1893); *Robertson v. Coleman*, 141 Mass. 231, 4 N.E. 619 (1886); *Famous Shoe & Clothing Co. v. Crosswhite*, 124 Mo. 34, 27 S.W. 397 (1894); *Merchants' Loan and Trust Co. v. Bank of the Metropolis*, 7 Daly 137 (N.Y. Common Pleas, 1877); *Townsend, Oldham & Co. v. Continental State Bank*, 178 S.W. 564 (Tex. Civ. App., 1915).

while, as we have already shown, *supra*, p. 32, the ascertainment of the drawer's actual or subjective intent is artificial and arbitrary, in these cases it is much less speculative to assume that the drawer would have identified the impostor as the payee for the casher. Our belief that this is the criterion used in determining the drawer's intent in the cases applying the impostor rule against the drawer solely on the basis of that intent derives strong support from several groups of cases, decided by courts which have otherwise followed the rule to find against the drawer, in which the drawer prevailed because the assumption that the drawer would be able or willing to identify the impostor as the payee could not be made. Thus, in cases where the drawer has had some doubts as to the identity of the impostor and has, therefore, required him to cash the check at a bank where he was known, the drawer has been permitted to recover. See *District National Bank v. Washington Loan & Trust Co.*, 65 F. 2d 831 (C.A.D.C., 1933); *Dodge v. National Exchange Bank*, 30 Ohio St. 1 (1877); see also *Gallo v. Brooklyn Savings Bank*, 199 N.Y. 222, 92 N.E. 633 (1910). In those cases, even though there were face-to-face dealings between the drawer and the impostor which resulted in the issuance of a check, the assumption that the drawer would have identified the impostor as the payee was contrary to the proven facts. In other cases, face-to-face dealings between the drawer and the impostor have been of such a transitory or insubstantial character that the courts have refused to make the assumption that the drawer would have identified the impostor as the payee and have accordingly imposed the loss on the casher who could therefore not have been misled by

the conduct of the drawer. See *Cohen v. Lincoln Savings Bank*, 275 N.Y. 399, 10 N.E. 2d 457 (1937); *Simpson v. Denver & Rio Grande R.R.*, 43 Utah 105, 134 Pac. 883 (1913).²⁶

Perhaps the strongest support for this explanation of the intent rationale in the impostor cases is furnished by the cases in which the dealings between the drawer and the impostor have been by correspondence only, for in those cases the loss has rarely been placed on the drawer unless the casher was shown to have actual knowledge about the circumstances surrounding the instrument's issuance and, in any event, practically never on the basis of subjective intent alone.²⁷ That

²⁶ In cases rejecting the impostor rule, e.g., *Keel v. Wynne*, 210 N.C. 426, 187 S.E. 571 (1936); *Tolman v. American National Bank*, 22 R.I. 462, 48 Atl. 480 (1901); *Western Union Telegraph Co. v. Bi-Metallic Bank*, 17 Colo. App. 229, 68 Pac. 115 (1902), the courts were presumably unwilling to assume that inquiry of the drawer would have been the most likely or appropriate means for identifying the payee. Thus, unless the casher had actual knowledge of the dealings between the drawer and the impostor, the correlative assumption that a normal inquiry by the casher as to the impostor's identity would necessarily have shown that he was the payee would also have been unacceptable.

²⁷ Of the correspondence cases usually cited in the support of the proposition that the loss has been imposed on the drawer in the majority of impostor cases regardless of whether the dealings between the drawer and impostor have been face to face or by correspondence, the following are ones in which the court relied on the fact that the casher had, at the time he dealt with the impostor, actual knowledge that the drawer had also dealt with the impostor believing him to be the payee (see discussion, pp. 36-38, *supra*): *United States v. Continental-American Bank & Trust Co.*, 175 F. 2d 271, certiorari denied, 338 U.S. 870 (1949); *Emporia National Bank v. Shotwell*, 35 Kan. 360, 11 Pac. 141 (1886); *Maloney v. Clark & Co.*, 6 Kan. 82 (1870); *Crippen, Lawrence & Co. v. American National Bank*, 51 Mo. App. 508 (1892); *Hoffman v. American Exchange National Bank*, 2 Neb. Unof. 222, 96 N.W. 112 (1902); *Forbes & King v. Espy, Heidelberg & Co.*, 21 Ohio St. 474 (1871);

these correspondence cases have usually pointed to the actual transmission of the drawer's intent to the cashier, which is not true in the face-to-face dealing cases, is explained by the fact that in cases where the drawer's dealings with the impostor have been face to face it may well be said that the "name of a person is the verbal designation by which he is known, but the visible presence of a person affords surer means of identifying him than his name." *Robertson v. Coleman*, 141 Mass. 231, 232, 4 N.E. 619, 620 (1886). See *Montgomery Garage Co. v. Manufacturers Liability Insurance Co.*, 94 N.J.L. 152, 155, 109 Atl. 296, 297 (1920). In that situation, if the cashier takes the impostor to the drawer for identification, or even if he only describes the physical characteristics of the impostor to the drawer by telephone or correspondence, for the purpose of having the im-

Heavy v. Commercial National Bank of Ogden, 27 Utah 222, 75 Pac. 727 (1904); cf. *Boatsman v. Stockmen's National Bank*, 56 Colo. 495, 138 Pac. 764 (1914); *Metzger v. Franklin Bank*, 119 Ind. 359, 21 N.E. 973 (1889); *Western Union Telegraph Co. v. American State Bank*, 277 S.W. 226 (Tex. Civ. App., 1925); see *Citizens' Union National Bank v. Terrell*, 244 Ky. 16, 50 S.W. 2d 60 (1932). And with the exception of *United States v. Union Trust Co.*, 139 F. Supp. 819 (D. Md., 1956), the other usually cited correspondence cases which have placed the loss on the drawer although the cashier had no knowledge of the drawer-impostor dealings, have not based their decisions solely on the impostor rule intent rationale. See *Hartford Accident & Indemnity Co. v. Middletown National Bank*, 126 Conn. 179, 10 A. 2d 604 (1939); *Uriola v. Twin Falls Bank & Trust Co.*, 37 Idaho 332, 215 Pac. 1080 (1923) (see discussion, p. 45, *infra*); *Peninsular State Bank v. First National Bank*, 245 Mich. 179, 222 N.W. 157 (1928); *First National Bank v. American Exchange National Bank*, 170 N.Y. 88, 62 N.E. 1089 (1902); *States v. First National Bank of Montrose*, 17 Pa. Super. 256, affirmed, 203 Pa. 69, 52 Atl. 13 (1902) (In *Commonwealth v. Globe Indemnity Co.*, 323 Pa. 261, 270, 185 Atl. 796, 800 (1936), the court explained that only justification for the *Montrose* result was that the drawer had sued too late—the express ground on which the lower court decision in *Montrose* had been affirmed).

postor identified as the payee, the drawer would normally be expected to so identify the impostor on the basis of the physical characteristics known to him.²⁸ On the other hand, where the dealings have been exclusively by correspondence, as in the present cases, the drawer would normally be in no position to identify any particular individual as the person intended to be the named payee or, if the payee was known to him personally, could in fact expose the impersonation so that in the absence of any knowledge by the cashier that the drawer had in fact dealt with the impostor, and not the named payee, the drawer has generally been allowed to recover in cases based solely on the intent criterion. See *Moore v. Moultrie Banking Co.*, 39 Ga. App. 687, 148 S.E. 311 (1929) (drawer personally knew named payee); *American Surety Co. v. Empire Trust Co.*, 262 N.Y. 181, 186 N.E. 436 (1933); *Mercantile National Bank v. Silverman*, 148 App. Div. 1, 132 N.Y. Supp. 1017 (1912), affirmed without opinion, 210 N.Y. 567, 104 N.E. 1134 (1914); *Palm v. Watt*, 7 Hun 317 (N.Y. S. Ct., 1876) (drawer personally knew named payee); *Commonwealth v. Globe Indemnity Co.*, 323 Pa. 261, 185 Atl. 796 (1936); see also *Citizens' State Bank of McLean v. Fuller*, 274 S.W. 208 (Tex. Civ. App., 1925). But see *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C.A. 5, 1957); *United States v. Union Trust Co.*, 139 F. Supp., 819 (D. Md., 1956).

²⁸ This also explains why, except in cases like those discussed at pp. 45-46, *infra*, the impostor rule should only be applied in those cases when the impostor has assumed the identity of the payee both in his dealings with the drawer and the person cashing the instrument.

Other impostor cases, in which the casher has not investigated the identity of the impostor, come within the second class of impostor cases which place the loss on the drawer not because of the assumption that the drawer would have identified the impostor as the payee upon inquiry but because it appears that the impostor or swindler either bears the name of the real payee or is generally known by his assumed name in the community to which the check was sent. See, *e.g.*, *United States v. First National Bank & Trust Co. of Asheville*, 92 F. Supp. 356 (W.D. N.C., 1950); *United States v. Liberty Insurance Bank*, 26 F. 2d 493 (W.D. Ky., 1928); *Uriola v. Twin Falls Bank & Trust Co.*, 37 Idaho 332, 215 Pac. 1080 (1923); *Jamieson & McFarland v. Heim*, 43 Wash. 153, 86 Pac. 165 (1906); see also *Slattery & Co. v. National City Bank*, 114 Misc. 48, 186 N.Y. Supp. 679 (1920) (drawer negligently sent check to address of a person with same name as intended payee); *S. Weisberger Co. v. Barberton Savings Bank*, 84 Ohio St. 21, 95 N.E. 379 (1911) (drawer negligently mailed check to Cleveland instead of New York and post office delivered it to person in Cleveland bearing payee's name). In these cases, it may be assumed that the casher could easily have determined upon inquiry in the community that a person bearing the impostor's name received his mail at the address to which the check was sent and that the person endorsing the payee's name was that individual. Accordingly, in these circumstances, as in the cases where a drawer is fraudulently induced to issue and deliver a check to a person in his proper name, it would be unreasonable to require the drawee or other cashing party to guarantee not only

the identity of the payee but also the justness of the claim for which the check was issued.²⁹

D. The Impostor Rule Is Inapplicable to These Cases Since the Conduct of the United States Did Not Impose an Unreasonable Burden of Inquiry on the Appellee Banks.

The foregoing analysis of the impostor cases imposing the loss on the drawer demonstrates, we submit, that they can be distinguished from cases like *National Metropolitan Bank* only on the ground that the conduct of the drawer or drawer-drawee imposed an unreasonable burden of inquiry on the party cashing a check with respect to the payee's identity. None of the bases for so distinguishing an impostor case from *National Metropolitan Bank* are present in these cases however. First, there is no showing here that the party cashing the tax refund checks for the swindlers had any knowledge of the circumstances leading to the issuance or mailing of the checks.³⁰ Second, neither the United

²⁹ The situation is to be distinguished from a case where a check is stolen by a person bearing the payee's name for in that situation the cashing party's ability to uncover the impersonation upon inquiry would in no way be hindered by the drawer's conduct in delivering the check to the impostor.

³⁰ Indeed with respect to each of the 58 checks cashed by the Security-First National Bank, it is patent that the bank was not in the least concerned with those circumstances since it relied, not on the validity of the payee's endorsement, but rather on the second endorsement appearing on each of the checks. Moreover, as noted above, on all except 4 of these checks, the second endorsements were in the real name of one of the conspirators. *Supra*, p. 4. Accordingly, at least with respect to those 54 checks, it would be impossible to show that any bona fide transferee of one of these refund checks from the defrauders could have been led to believe

States or any of its agents would have been able to identify the impostor as the intended payee for they had no knowledge about the payee except the information which appeared on the face of the tax refund checks and the tax returns.³¹ Finally, in the absence of any showing that the alleged impostors had assumed the identity of the named payees in their daily activities and contacts so that an investigation by the banks would have determined that persons bearing the payees' names lived at the addresses given and that the endorser were those persons, it is evident that if the United States is permitted to recover here the burden of inquiry on appellee banks will have been no greater than that in the *National Metropolitan Bank* case and hence not an unreasonable one.³²

that the person with whom he was dealing was the intended payee. Similarly, it appears that the second endorsement on at least 3 of the 7 checks cashed by the Bank of America are also in the true names of one of the conspirators. *Supra*, p. 5.

³¹ See discussion, p. 26, *supra*.

³² The district court gave judgments for appellees only on the ground that there had been no forged endorsements and did not reach the separate defenses of laches pleaded by both appellees in their answers (R. 14; R'. 20-21) or of the limitations provisions of 31 U.S.C. 129 pleaded by the Bank of America (R. 13-14). There is clearly no merit to either of those defenses

First, the limitations provision of 31 U.S.C. 129 that "[n]o proceeding in any court shall be brought by the United States * * * to enforce the liability of any endorser * * * arising out of a forged or unauthorized signature or endorsement upon * * * any check * * * issued by the * * * Treasurer and Assistant Treasurers of the United States, or by disbursing officers and agents of the United States, unless such proceeding is commenced within six years after the presentation to the Treasurer of the United States * * * of such issued checks * * * for payment of such check, * * * or unless within that period written notice shall have been given by the United States or an agency thereof to such endorser * * * of a claim on account of such liability * * *" are clearly inapplicable to the *Bank*

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the judgments of the District Court were erroneous and should be reversed.

GEORGE COCHRAN DOUB,
Assistant Attorney General,
LAUGHLIN E. WATERS,
United States Attorney,
SAMUEL D. SLADE,
PETER H. SCHIFF,
Attorneys,
Department of Justice,
Washington 25, D. C.

JANUARY, 1959.

of *America* case in which they were pleaded. For there the checks were all presented for payment in March or April of 1949 (R. 4) and demands for repayment were made by the United States "[u]pon discovery that a fraud had been committed, on or about October 14, 1949, and January 11, 1950," (R. 16, 21)—within the six-year period allowed by the statute.

Second, neither of the appellees pleaded any facts in support of their laches defenses to show specific damages resulting from the alleged failure of the United States to give prompt notice after discovery of fraud. Since the Supreme Court has held that when the signature of the payee on a Government check is forged an endorser is not relieved of liability because of the drawee's failure to give prompt notice after learning of the forgery unless there is a clear showing that the drawee's delay in notification caused damage to the endorser and that damage occasioned by delay must be established and not left to conjecture, the laches defense must necessarily fail here. *Clearfield Trust Co. v. United States*, 318 U.S. 363 (1943). See *United States v. Peoples National Bank of Chicago*, 249 F. 2d 637 (C.A. 7, 1957).

No. 16164

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

UNITED STATES OF AMERICA,

Appellant,

vs.

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,

Appellee.

On Appeal From the United States District Court for the
Southern District of California, Central Division

BRIEF OF THE BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION.

SAMUEL B. STEWART,
HUGO A. STEINMEYER,
GEO. L. BECKWITH,

650 South Spring Street,
Los Angeles 14, California,

Attorneys for Appellee.

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BRIEF OF THE BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION.

Statement.

The statement contained in appellant's brief, page 4, covering "b, the Bank of America Case" is substantially correct. However, appellee wishes to point out that the seven checks involved in the *Bank of America* case, contrary to appellant's statement, were not issued to seven different fictitious or non-existing payees but were issued to one or more actual living beings who used assumed names [R. 19-20].

Summary of Argument.

The appellant in its brief relies heavily in support of its argument that *National Metropolitan Bank v. United States*, 323 U. S. 454 (1945) and related cases are controlling.

Appellee will show under Point I that the *National Metropolitan Bank* case and related cases have no application to the facts of the case at bar in that those cases are all concerned with a situation in which there is an admitted forgery and the results which follow therefrom. They have nothing to do with the impostor rule which is involved in the present case and in which the issue is whether or not there was a forgery.

Appellee will show that the argument of appellant to the effect that the policy of the *National Metropolitan Bank* case should be applied in this case is erroneous because appellant's argument is premised on a basic but erroneous assumption that this is a forgery case and the Government refuses to recognize the difference between a forgery and an impostor case and persists in its false assumption that the endorsements involved in this case are forgeries. The Government, in erroneously assuming the very issue presented, thus begs the entire issue.

The Supreme Court on two occasions, as will be shown in the argument, has accepted the impostor rule as a matter of Federal law in two cases indistinguishable from the case at bar.

In Point II, we will show how the impostor rule is applicable to the case at bar and that the facts present the classic case for the application of the rule.

The case of *United States v. Continental American Bank and Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949), certiorari denied, 338 U. S. 870 (1949), is on all fours with the case at bar and applied the impostor rule as a matter of Federal law, deciding the bank was not liable.

The doctrine of actual or dominant intent is the correct basis for application of the impostor rule. The drawer of a check in issuing a check intends that some physical person, not just a name, receive and endorse the check. The drawer in dealing with an impostor, although he does not know him as such, intends that the person with whom he deals is the one who is entitled to the check and the bank in cashing the check merely carries out the intent of the drawer. That is the factual situation existing in the case at bar.

ARGUMENT.

Before answering the argument of appellant, appellee believes that it is apropos, at this point, to set forth what it believes to be the only issue involved in this case.

It is appellee's contention that the only issue is whether or not the present case presents a factual situation which calls for the application of the doctrine of the impostor rule.

It is our contention that the factual situation involved herein, as per the stipulation of facts [R. 14-17], presents the classic situation for the application of the doctrine, that the lower court was correct in concluding as a matter of law that the impostor rule applied and the en-

dorsements of the payees' names on the checks were not forgeries.

The impostor rule is succinctly set forth at page 118 in the case of *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C. A. 5, 1957):

“* * * where the drawer of a check has dealings with an impostor who assumes a false name, and the check is intended for the person with whom the drawer is dealing, payment of the check by the bank to such impostor or on his endorsement will be authorized and binding upon the * * * drawer, 7 Amer. Jur., Banks, §599.”

In the instant case, all the essential elements compelling the application of the doctrine are present:

1. Dealings between the impostor and the Government by filing the income tax return with name and address thereon of the purported tax payer.
2. The fraudulent representation that a refund is due to the person named.
3. The issuance of the check in the name shown on the return and delivery of said check to the address shown on the return.
4. The receipt by the physical person filing the return of the check.
5. The endorsement of the check by the physical person who filed the return and to whom the check was mailed.

I.

The Rule of National Metropolitan Bank v. United States, 323 U. S. 454, Has No Application to the Facts of the Case at Bar and Is Not Controlling.

A. The National Metropolitan Bank and Related Cases Involve Admitted Forged Endorsements.

Appellant in arguing for a reversal of the lower court relies almost entirely on the decision in *National Metropolitan Bank v. United States*, 323 U. S. 454 (1945), and related cases.

The *National Metropolitan Bank* case did not involve the impostor rule. The impostor rule was not even discussed in the case. It was a case of out-and-out forgery. Appellee has no argument with appellant as to what the law is where there is an admitted forgery. In the instant case, we do not have an admitted forgery and for the appellant to argue and cite in support of forgery cases is merely to beg the question.

In the *National Metropolitan Bank* case, one Foley, a civilian clerk in the paymaster's office of the Marine Corps falsely procured from the disbursing officer checks payable to living marine officers. These checks were delivered to Foley for the purpose of having him distribute them to the named officers. Instead of distributing them to the named officers, Foley forged the endorsements of the named payees and then added his own endorsement. He did not deliver them to the payees as it was his duty to do, but forged their names and cashed them. He had never presented himself or represented himself as the person entitled and persuaded the drawer of the checks that he

was entitled to be paid. He was not an impostor but a forger.

This court, in the case of *Security-First National Bank of Los Angeles v. United States*, 103 F. 2d 188 (C. A. 9, 1939), a case in its essential facts on all fours with the case at bar, at page 190, in discussing the impostor rule, said:

“In cases of this character it is frequently said that the drawer of the instrument has a double intent: (1) He intends to make the instrument payable to the impostor with whom he deals; and (2) he intends to make it payable to the person whom he believes the impostor to be. By the great weight of authority the first is held to be the controlling intent, although a different view has been taken in some cases where the payee named was known to the drawer, or where the payee was particularly identified in the instrument as by some description or title.”

This court also pointed out in the *Security-First National Bank* case that the majority rule is that where the drawer delivers a check, draft, or bill of exchange to an impostor as payee, supporting that he is the person that he has falsely represented himself to be, the impostor's endorsement in the name by which the payee is described is regarded as a genuine endorsement to subsequent holders in good faith.

In the *National Metropolitan Bank* case, it is perfectly obvious that the disbursing agent in delivering the checks to Foley did not intend that Foley should endorse same. In the case at bar, it is just as perfectly obvious that the government in delivering the checks to the payee in the name signed on the return and at the address given on the return intended that the person who filed the return get the refund check and endorse same, which is exactly

what happened. Here in the case before the court, the checks were intended to go, as they did, to the very flesh and blood person who filed the return as payee though that intention was procured by fraudulent representations as to the payee's name and status. The checks were delivered to the person filing the return and were intended for that person and though they were voidable for fraud, the person receiving the checks was the payee. (*United States v. Continental American Bank & Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949).)

Continental National Bank and Trust Co. v. Olney National Bank, 33 F. 2d 437 (C. A. 7, 1929); *First National Bank v. Whitman*, 94 U. S. 343 (1876); *Leather Manufacturers' Bank v. Merchants Bank*, 128 U. S. 26 (1888); Brannan's Negotiable Instruments Law (7th Ed., 1948), p. 445, all cited by appellant on page 10 of its brief, simply state the general proposition of law that the drawee bank is liable to the drawer when the drawee pays on a forged endorsement because it has not followed the order of its depositor. They have no application to the facts of the case at bar.

The case of *Washington Loan & Trust Co. v. United States*, 134 F. 2d 59 (C. A. D. C. 1943) cited by appellant on page 12 of its brief has no application to the case at bar for the same reason that the *National Metropolitan* case does not apply. In the *Washington Loan & Trust Co.* case, one Stitley was an employee of the Park Service. His duty was to prepare bi-monthly payroll vouchers, containing names of employees in service, present them to the disbursing officers of the Government, and receive and distribute the checks drawn by those officers to the order of the employees. It was not intended by the Government that Stitley, who prepared the false vouchers, was to be the payee of the checks. It was in-

tended that he, as was his duty, would send them to the named payees. In the present case it was intended by the Government that the person who prepared and filed the return showing the overpayment be the one to receive the check and endorse same.

In *Onondaga County Savings Bank v. United States*, 64 Fed. 703 (C. A. 2, 1894), cited on pages 12 and 16 of appellant's brief, the impostor rule was not discussed. Furthermore, it does not appear from the facts of the case whether the original dealings had been between an impostor or not. There is at least an inference from appellant's brief, page 17, that the original dealings were genuine between an actual person named Alma Wood, who was entitled to a pension check, and the Government, so that the drafts issued by the Government were intended by the Government to go to the real Alma Wood, with whom the original dealings took place before the impostor came into the picture.

In *United States v. National Exchange Bank of Providence*, 214 U. S. 302 (1909), cited on page 18 of appellant's brief, there are no facts stated in the case to show that Munson, the person who got the checks and forged the names of the payees, was the one who filed the false pension vouchers. This fact is pointed out in *United States Continental American Bank and Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949) wherein the court at page 272, referring to the *United States v. National Exchange Bank of Providence* case said:

"He had not passed himself off as a person entitled to a pension and had not been found entitled to a check. He was not an impostor but a common forger. The court did not refer to the 'impostor rule.' "

In the case at bar, it is stipulated that the person representing himself to be entitled to the refund is the one who got the refund and endorsed the check. True, he had committed fraud and the transaction was voidable but had anyone else endorsed the check it would have been a forgery. The only person in the present case who could endorse or had authority to endorse and who the government intended should endorse was the person who filed the return and did endorse.

None of the cases cited by appellant in its brief beginning on page 19 and ending on page 20 involved the impostor doctrine. They involve fictitious payees under the bearer paper rule. Only two cases mentioned the impostor rule: *Commonwealth v. Globe Indemnity*, 323 Pa. 26, 185 Atl. 796 (1936) and *McCornack v. Central State Bank*, 203 Iowa 833, 211 N. W. 542 (1926), and they both point out that if a particular person is intended and designated as payee, it is immaterial to the drawer by what name he is called, he may endorse and payment to him will be good. The facts of the *Commonwealth* case are not at all analogous to the case at bar.

The *Clearfield Trust Co. v. United States*, 318 U. S. 363 (1943) case is not an impostor case and the rule is not discussed.

It should perhaps be stated in passing that counsel for appellant on more than one occasion in his brief, states that the swindlers in the present case obtained the checks from the mail by means not shown. Appellee cannot agree with this statement. The stipulation of facts shows how they were obtained [R. 16].

B. The Policy of the National Metropolitan Bank Case Is Not Applicable to the Case at Bar.

On page 22 of appellant's brief under the heading "B. The Policy of the National Metropolitan Bank Case has Application to the Facts of the Present Case," the appellant makes the statement that "Strong considerations of policy support the almost universal rule, which was followed by the Supreme Court in the National Metropolitan Bank Case, that the drawer owes no duty to protect one who voluntarily cashes a check against a forgery of the payee's signature and consequently the one cashing the check will not be relieved of his guaranty of prior endorsements on the sole ground that the check was fraudulently procured from the drawer by the forger."

The appellant then on page 23 cites *Clearfield Trust Co. v. United States*, 318 U. S. 363, 370 (1943) for the proposition that if the payee's endorsement is forged and loss occurs, it is the "neglect or error" of the cashing or collecting bank in "accepting the forger's signature which occasions the loss," unless the drawer's lack of precaution has made it impossible as a practical matter for the bank to discover the forgery.

Appellee has no argument with appellant concerning what the policy is or should be where admittedly there is a forgery and the endorsement is guaranteed. However, what appellant in effect is attempting to argue is that the same policy should be applied in determining whether or not there is a forgery as is applied when there is an admitted forgery. This simply begs the question.

Where it is an admitted forgery, no title passes to a transferee and one who guarantees such an endorsement has breached his contract of guaranty which gives rise to the cause of action. Whether or not there may have

been an initial fraud in the procurement and issuance of the instrument would in no way change the result if there is an admitted forgery. But the policy which permits recovery where there is an admitted forgery cannot be used or applied to determine the very question in issue as to whether or not there is a forgery.

That the policy of the *National Metropolitan Bank* case should not be applied to the facts of the case at bar is amply illustrated in the *United States v. Continental American Bank and Trust Co.* case, *supra*, a case on all fours with the case at bar, wherein the court pointed out that all the bank's guaranty is that the person to whom the check was issued has endorsed it, but not that the check was honestly procured from the drawer. The banks, by their guaranty, do not have the burden of correcting a mistake or detecting a fraud committed.

To argue that the same policy which gives relief in the case of an admitted forged endorsement should be applied to determine whether or not there is a forgery is akin to arguing that the measure of damages which is applied in a negligence case should be used to determine whether or not there is negligence.

Appellant argues that one who pays money out on a check is not concerned with the circumstances of its issuance which are not known to him, nor with what precaution against forgery the drawer may have taken before or after executing the check. That is a fair statement and in accord with the opinion in the *United States v. Continental American Bank and Trust Co.* case that the bank by guaranteeing the endorsement does not warrant that the check was not fraudulently procured. But the appellant nevertheless conversely argues in effect that if the check is fraudulently procured that *ipso facto* that

makes the endorsement a forgery and, therefore, the bank is liable on its guaranty. There is no logic whatsoever to such reasoning.

Though appellant does not say so in so many words, its entire argument, pages 22 to 27, boils down to nothing more or less than an attempt to argue that where government checks are concerned, there is no such thing as the "Impostor Rule."

Investigation has revealed that in the case of the *United States v. Continental American Bank and Trust Co.*, *supra*, in which certiorari was denied in 338 U. S. 870 (1949), the Government's brief, in support of its petition for certiorari under the heading "Questions Presented," appears the following, "3. Whether the so-called 'Impostor Rule' can apply at all to a check issued by the United States." The Government relied heavily on the *National Metropolitan Bank* case and on the *United States v. National Exchange Bank of Providence*, 214 U. S. 302 (1909) case and under the heading of "Reasons for Granting Writ of Certiorari" argued that (a) the court refused to follow the controlling decisions of the Supreme Court in the *National Metropolitan Bank* and the *Exchange Bank of Providence* cases; (b) that the so-called impostor rule has no application in the case of Government checks. Thus, the Supreme Court had before it the question of whether the decision of the Court of Appeals in the *Continental American Bank and Trust Co.* case was contrary to the *National Metropolitan* case and also the question of whether or not the court should limit the impostor rule application so that it did not apply to Government checks. There was thus presented to the Supreme Court in the petition for certiorari in the *National Metropolitan Bank* case, the same argument as presented herein by appellant and certiorari was denied.

In the *Continental Bank and Trust Co.* case, a woman whose true name was Bertha Smith but using the name of Beulah Mitchell Gibbs, who was the widow of Ben Gibbs, Jr., a deceased veteran, and pretending to be Beulah Mitchell Gibbs, by application sent through the mail to the Veteran's Administration, secured Veteran's Administration allowances to her as the widow. The Veteran's Administration sent to her through the mail checks made out to Beulah Mitchell Gibbs as payee. Upon receipt of these checks, Bertha Smith endorsed the name of Beulah Mitchell Gibbs on the checks and cashed same at the defendant bank, which bank then placed its own endorsement thereon with the additional notation "prior endorsements guaranteed" and collected on the checks from the United States. It will thus be seen from an examination of the facts that in all essential elements, the case is identical to the case at bar and certiorari was denied. As a matter of fact, the case at bar presents an even stronger case for the application of the impostor doctrine as it could very well have been argued in the *Continental Bank* case that the Government intended that the checks should be endorsed by "Beulah Mitchell Gibbs, widow of Ben Gibbs, Jr.," in which case only the true Beulah Mitchell Gibbs could have endorsed. In the case at bar, the appellant does not even have that to support its case.

The case of *United States v. First National Bank of Albuquerque*, 131 F. 2d 984 (C. A. 10, 1942) is a case similar in facts to the case at bar and in which case it was held that the impostor rule applied. Petition for certiorari was denied in 318 U. S. 774 (1943). The Court of Appeals at page 987 said:

"It must be conceded however that when the United States becomes a party to commercial paper, it impliedly consents to be bound by the same rules gov-

erning private persons under the same circumstances. *Cooke v. United States*, 91 U. S. 389, 23 L. Ed. 237; *United States v. National Exchange Bank of Baltimore*, 270 U. S. 527, 46 S. Ct. 388, 70 L. Ed. 717; *Lynch v. United States*, 292 U. S. 571, 579, 54 S. Ct. 840, 78 L. Ed. 1434; *United States v. Guaranty Trust Company*, 293 U. S. 340, 350, 55 S. Ct. 221, 79 L. Ed. 415, 95 A. L. R. 651; *United States v. First National Bank of Prague*, 10 Cir., 124 F. 2d 484. Whatever label we give the rule, whether Federal or state law, it derives its substance from the law merchant, and since New Mexico has not spoken on the question, we are at liberty to assume that its courts as well as the Federal law, will follow the uniform law governing commercial transactions. To that extent, we shall fashion the rule from the 'materials at hand.' "

The court went on at page 987 to say, quoting from its prior decision in the case of *United States v. First National Bank of Prague*, 124 F. 2d 484 (C. A. 10, 1941):

" 'With few exceptions, it is held that the drawer of a check, bill of exchange, or other negotiable instrument cannot recover from an intermediary bank on its endorsement, or from the payee bank upon its payment, where the check, bill, or other instrument is drawn and delivered to an impostor under the mistaken belief on the part of the drawer that he is the person whose name he has assumed and to whose order the check, bill, or other instrument is made payable, and the intermediary bank acquires it from the impostor upon his endorsement thereon of the name of the payee, or the payee bank pays it upon such endorsement, as the case may be. Although not in full accord in respect of the reasons for their conclusion, most courts hold that while the drawer acts

in the mistaken belief that the person with whom he deals either in person or by correspondence is the person whose name he has assumed and pretends to be, still it is the intent of the drawer to make the check, bill, or other instrument payable to the identical person with whom he deals and therefore to be paid on his endorsement; and that accordingly payment to him or his endorsee merely affectuates the intent of the drawer.’ ”

In the Government’s brief in the *First National Bank of Prague* case, in support of its petition for certiorari, the Government’s question was whether or not the impostor rule applied to prevent recovery by the United States. As stated before, the petition for certiorari was denied. Thus, on two occasions; one before the *National Metropolitan* case and one subsequent, there has been presented to the Supreme Court the points argued for by appellant herein and in both instances certiorari was denied.

II.

The Impostor Rule Is Applicable to the Present Facts.

In support of appellee’s argument herein that the impostor rule is applicable to the facts of the present case, appellee believes that it is appropriate at this point to summarize briefly the facts as set forth in the Stipulation of Facts [R. 14-17]. On the date set forth in Paragraph I of the Stipulation of Facts, seven checks were issued by the Treasurer of the United States in the names of the payees as set forth in the stipulation. Prior to the issuance of the checks, one or more persons, whose identity

is unknown, filed income tax returns in the names in which the aforementioned checks were issued, showing overpayment of income tax. Upon receipt of said returns, without first ascertaining whether the taxes claimed to have been paid to appellant had been paid and relying on the returns which were false and fraudulent, appellant issued the seven checks hereinbefore referred to. Appellant then mailed the seven respective checks to the respective payees in the names of the payees as shown on the returns and to the addressees shown on the returns. Each check was endorsed by the same person who signed the return in the name signed on the return for which the check was issued. Each check was subsequently endorsed to appellee, endorsed by appellee "All prior endorsements guaranteed."

Stated generally, the impostor rule is that where the drawer delivers a negotiable instrument to an impostor as payee, supposing that the impostor is the person he has falsely represented himself to be, the impostor's endorsement is regarded as a genuine endorsement, not a forgery, as to subsequent holders in good faith. (*Security-First National Bank of Los Angeles v. United States*, 103 F. 2d 188 (C. A. 9, 1939); *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C. A. 5, 1957).) The fact that negotiations are by mail rather than by person does not change the result. There is no distinction made between the effect to be given an impersonation by mail and one in person. (See *Security-First National Bank of Los Angeles v. United States*, 103 F. 2d 188 (C. A. 9, 1939); *United States v. Continental American Bank and Trust Co.*, 175 F. 2d 271 (C. A., 5, 1949); Britton on Bills and Notes (1943), pp. 715-725.)

A. United States v. Continental American Bank and Trust Co. and Related Cases Are Controlling.

The basis for the impostor rule is that the intent of the drawer was carried out; *i.e.*, the person who the drawer intended should endorse the check did endorse. (*Security-First National Bank of Los Angeles v. United States, supra*; *United States v. First National Bank of Prague, supra*; *United States v. First National Bank of Albuquerque, supra*.)

The facts herein present the classic situation for the application of the impostor rule:

1. Fraud practiced on the drawer by an impostor which induces the drawer to deal with same.
2. Such dealing is consummated by the issuance and delivery of a check by the drawer.
3. The check is issued to the impostor in his assumed name.
4. It was intended that the impostor receive the check and did receive same.
5. It is intended that he endorse the check and did endorse same.

Appellant in Foot Note No. 15, page 28 of brief makes the statement that the Supreme Court has never examined the impostor rule. Appellee does not believe that this is an accurate statement. There may be no Supreme Court decision on the impostor rule; however, the Supreme Court has certainly examined the rule.

It is pointed out herein, *supra*, that in two cases, *United States v. Continental American Bank and Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949) and *United States v. First National Bank of Albuquerque*, 131 F. 2d 984 (C. A. 10,

1942), the impostor rule was the issue involved. In both cases the Government petitioned for certiorari and in both cases, it was denied. (338 U. S. 870 (1949); 318 U. S. 774 (1943) respectively.) We certainly may assume that the Supreme Court, before denying certiorari, examined the impostor rule as it was applied in both cases. We may further assume that in denying certiorari in both cases, the Supreme Court at least tacitly approved both decisions of the Court of Appeals.

The *United States v. Continental American Bank and Trust Co.* case, as pointed out *supra* herein, is indistinguishable in its essentials from the case at bar and as certiorari was denied in that case, subsequent to the *National Metropolitan Bank v. United States* case, the *Continental American Bank and Trust Co.* case is the leading authority for appellee's argument that the impostor rule is applicable to the facts of the case at bar and also that the *National Metropolitan Bank* case has no application to the facts of the case at bar, either in principle or fact.

It is further submitted that *Security-First National Bank of Los Angeles v. United States*, 103 F. 2d 188 (C. A. 9, 1939), *supra*; *United States v. First National Bank of Prague*, 124 F. 2d 484 (C. A. 10, 1941); *United States v. First National Bank of Albuquerque*, 131 F. 2d 985 (C. A. 10, 1942; and *Atlantic National Bank of Jacksonville v. United States*, 250 F. 2d 114 (C. A. 5, 1957), are all authority, both in fact and principle, that the case at bar presents the classic situation for the impostor rule and that the decision of the trial court herein was correct.

B. The Doctrine of Actual Intent Is the Correct Basis for Application of the Impostor Rule.

As pointed out *supra* herein, the basis for the application of the impostor rule is that the bank in paying the check has carried out the drawer's intent. (*United States v. First National Bank of Prague*, 124 F. 2d 484 (C. A. 10, 1951); *Security-First National Bank of Los Angeles v. United States*, 103 F. 2d 188 (C. A. 9, 1939); *United States v. First National Bank of Albuquerque*, 131 F. 2d 985 (C. A. 10, 1942); *Land Title and Trust Co. v. Northwestern National Bank*, 196 Pa. 230, 46 Atl. 420 (1900); Britton Bills and Notes (1943), p. 724.)

There can be no question but that a drawer in issuing a check in a certain name intends that some physical being endorse the check, he had some physical being in mind, not just a name, unless he intended that the payee be a fictitious or non-existing person in which case it is bearer paper and needs no endorsement.

Appellant argues (B. 33) that there is no need to look beyond the face of the instrument for the purpose of ascertaining the drawer's intent. That this is absolutely an unworkable test may be pointed out by example. Let us assume that a check is made payable to "John Smith." Assume there are several John Smiths. Then any John Smith who came into possession of the check could endorse and the endorsement would not be a forgery because, according to appellant's argument, we must look at the face of the instrument only and it is not necessary to ascertain which John Smith was intended or in the mind of the drawer when he drew the check. In other words, as we should not look beyond the instrument, according to appellant, then the drawer must have intended

the check to be payable to a name only, not any particular physical person. Appellee can find no logic in such a test.

Appellant points out (B. 32) that Judge Rives in his dissent in the *Atlantic National Bank* case, asserted that the impostor rule "introduces confusion requiring the ascertainment of a non-existent intent." (250 F. 2d 120.) We respectfully submit that this is an unrealistic approach. There must of necessity exist an intent in the issuance of every check, otherwise it would not have been issued. Again, for example, let us assume that a person is doing business under a fictitious name. Suppose a return is filed by that person in the fictitious name showing an overpayment and a refund due. Assume further that there actually is an overpayment and a refund due. The Government issues a check for the amount of the refund in the fictitious name and it is endorsed by the person entitled to the refund in the fictitious name. If we follow appellant's argument that we look to the face of the instrument only, then the endorsement would be a forgery but there can be no question but in the example that the physical person who endorsed was the one intended by the Government to endorse, although he did not endorse in his true name. In other words, the drawer is not interested in a name but in a particular physical person. (*Commonwealth v. Globe Indemnity*, 323 Pa. 261, 185 Atl. 796 (1936); *McCornack v. Central State Bank*, 203 Iowa 833, 211 N. W. 542 (1926).) The only difference between the example and the case at bar is that in the example, the payee was using a fictitious name for a legitimate reason or purpose and in the case at bar, he was using it for a fraudulent purpose. Actually, all the appellant's argument amounts to in attempting to reject the actual intent doctrine is that because it was defrauded, the endorsement was a forgery, whereas if there had not been a fraud in the

issuance of the check, it would not be a forgery. In other words, the appellant, in effect, says liability depends on whether or not there was fraud which induced the issuance of the check. The banks, in guaranteeing prior endorsements, do not warrant or guaranty that the check was not fraudulently issued. (*United States v. Continental American Bank and Trust Co.*, 175 F. 2d 271 (C. A. 5, 1949).)

The foregoing examples, we believe, clearly demonstrate that actual intent is the true basis for the impostor doctrine. In the case at bar, the Government in issuing the checks was not at all concerned with the names. It was only interested in sending a refund to the physical person filing the return and who it thought was entitled to a refund. It intended that the check be payable to the physical person filing the return, not just to a name. Otherwise, if it only intended a name, then any person with that name could endorse. Obviously, that is not what the Government intended.

Appellant cites cases in which the impostor rule has been applied and in which cases under the factual situation existent, either the cashing party had actual knowledge of the drawer-impostor dealings or cases in which the impostor would have been identified as the payee, even if reasonable inquiry had been made. However, a reading of those cases discloses that such a factual situation is not a condition to the application of the rule. The various decisions state what the impostor rule is and do not condition its application upon the existence of the facts mentioned. They are practically unanimous in simply stating that the rule is based on the intent of the drawer and that he intended the impostor endorse the check.

Conclusion.

It is respectfully submitted that the decision of the trial court was correct and that the judgment should be affirmed.

Respectfully submitted,

SAMUEL B. STEWART,

HUGO A. STEINMEYER, and

GEO. L. BECKWITH,

*Attorneys for Appellee Bank of America
National Trust and Savings Association.*

